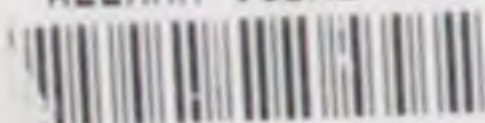


THE ELEMENTS OF COMMERCE FOR BEGINNERS

M. CLARK



ALLAMA IQBAL LIBRARY



0038

380.1
C548E

THE ELEMENTS OF COMMERCE

THE ELEMENTS OF COMMERCE

FOR BEGINNERS

BY

M. CLARK, M.A., B.Com.

LONGMANS, GREEN AND CO.
LONDON :: NEW YORK :: TORONTO

LONGMANS, GREEN AND CO LTD
6 & 7 CLIFFORD STREET LONDON W 1
ALSO AT MELBOURNE AND CAPE TOWN

LONGMANS, GREEN AND CO INC
55 FIFTH AVENUE NEW YORK 3

LONGMANS, GREEN AND CO
215 VICTORIA STREET TORONTO 1

ORIENT LONGMANS LTD
BOMBAY CALCUTTA MADRAS

CITIZEN



3702

CHITRA
ED

First Published 1930
Second Edition 1953



ALLAMA IQBAL LIBRARY



10038

ST 01
SA

380.1

C 548 E

Printed in Great Britain
at the BURLEIGH PRESS, Lewins Mead, BRISTOL

- ① Commerce.
- ② Business

PREFACE TO THE SECOND EDITION

THE demand for a new edition of this book has afforded an opportunity of making a number of minor changes and of re-writing certain parts which the lapse of time and the actions of Government have rendered out-of-line with the facts of to-day.

It is hoped that these changes will add to the value of the book as an introduction, for younger students in particular, to the study of "Commerce".

My thanks for criticisms and suggestions are gratefully offered to all those who have tendered them during the time the book has been in use.

MATTHEW CLARK.

Wolverhampton.

1953.

CONTENTS

PART I

INTRODUCTORY

| CHAPTER | | PAGE |
|---------|---|------|
| I. | ON A PURCHASE AND ALL IT ENTAILS | 1 |
| II. | ON THE VARIOUS CLASSES OF OCCUPATION | 5 |
| III. | ON THE MEANING OF "COMMERCE" AND "TRADE" | 12 |

PART II

THE RETAIL TRADE

| | | |
|-------|---|----|
| IV. | ON THE RETAILER AND HIS WORK | 16 |
| V. | ON THE VARIOUS TYPES OF RETAIL SHOP | 21 |
| VI. | ON RAISING THE CAPITAL | 27 |
| VII. | ON USING THE CAPITAL | 31 |
| VIII. | ON BUYING THE STOCK | 36 |
| IX. | ON SELLING THE GOODS | 45 |
| X. | ON DELIVERING THE GOODS | 49 |

PART III

THE WHOLESALE TRADE

| | | |
|-------|--|----|
| XI. | ON THE WHOLESALER AND HIS WORK | 54 |
| XII. | ON THE WHOLESALE WAREHOUSE | 61 |
| XIII. | ON WHOLESALE BUYING | 66 |
| XIV. | ON WHOLESALE SELLING | 71 |
| XV. | ON THE COURSE OF AN ORDER | 75 |
| XVI. | ON GROSS AND NET PROFIT | 84 |

PART IV

THE MECHANISM OF EXCHANGE

| | | |
|--------|---|-----|
| XVII. | ON STATE-MADE MEANS OF PAYMENT | 92 |
| XVIII. | ON BANK-PROVIDED MEANS OF PAYMENT | 100 |
| XIX. | ON OTHER MEANS OF PAYMENT | 109 |
| XX. | ON BANKS AND BANKING ACCOUNTS | 117 |

Part I Introductory

CHAPTER I

ON A PURCHASE AND ALL IT ENTAILS

ON leaving his home for work one morning, Mr. Brown discovered that he had neither cigarette nor tobacco for his customary after-breakfast smoke. Fortunately there was a tobacconist's shop near by, so into this he went to make a purchase and then, with a lighted cigarette in his mouth, he went on his way, feeling much more pleased both with himself and with the world. He did not stop to wonder how it came about that he could step into the first tobacconist's shop he saw on his way and get just what he wanted. His morning smoke was guaranteed and that was all that mattered to him at the moment.

But Brown does not stand alone. Every day we all do as he did: we enter shops and make our purchases, never stopping to give a thought to the scheme of things which enables us to get, almost on our very doorsteps, the very things we require, whether they be the fruits grown in the district which surrounds us or the products of some distant country.

In this little book, it will be our task to go behind the scenes and examine the mechanism which enables all of us to satisfy our wants in this convenient and easy manner; to reach our daily toil as much improved in temper as we may suppose Brown to have been. Let us, first of all, return to

2 THE ELEMENTS OF COMMERCE

Brown's case and consider some of the things which made it possible for him to satisfy his craving with so little trouble to himself.

Most of us are aware that very little tobacco is grown in this country ; certainly not enough is grown to meet the needs of all our smokers. We may assume that the tobacco in Brown's cigarettes came from abroad, from Virginia perhaps. Out in Virginia, then, in the United States of America, some cultivator of tobacco is affected by the purchase in this country of a packet of cigarettes made of Virginian tobacco. The fields in which the tobacco is grown will most likely be far away from the sea. If the tobacco is to be sent to this country, therefore, it must be sent down to the port either by land or by water. This part of the work may be done by the grower himself but most likely it will be done by a railway company or some such body. Or, maybe, a merchant who buys tobacco to send to foreign buyers has had something to do with getting the produce down to the port. From the port the tobacco must be sent by ship to this country. Many perils may lie ahead : certainly there are many risks and, to guard against these, the cargo must be insured. If all goes well on the journey, the tobacco reaches this country where it must be unloaded ; loaded again into motor-wagons, railway trucks, etc., and sent off to the manufacturer who will make some of it into cigarettes such as those bought by Brown. This manufacturer may sell cigarettes to Brown's little shopkeeper, or retailer, but more likely he will want to sell in larger quantities to a tobacconist of the wholesale type. We thus come to the conclusion that behind the purchase of a packet of cigarettes by Brown, there is a whole string of dealings stretching right away to far-off Virginia.

But are there not other things in addition to the growing, the carrying, the insurance, and the

manufacturing? We have omitted a most important item, viz.: paying for the tobacco and the cigarettes. Brown pays the tobacconist his four shillings and the retail tobacconist pays either the wholesaler or the manufacturer in something which represents pounds, shillings and pence. In our own country there need be no difficulty: we all think of prices in terms of our own money. However, someone in this country—the one who imported the tobacco—has to pay someone in the United States for it. This American gentleman has no use for our pounds, shillings and pence: what he desires is his own country's money. To change our pounds, shillings and pence into dollars and cents, we make use of the banks. The reader need only look at the windows of a bank in one of our larger towns and he will generally see the notice "Foreign Exchange business transacted." At such banks we may buy with the money of our country, the money of a foreign country whenever we have to pay a debt to a foreigner, or even when we are going to a foreign country for a holiday or on business.

We are now in a position to realize how much lies hidden behind the purchase of even a trifling thing such as a packet of cigarettes and we may sum up by noting that, in Brown's case, the people affected were the retailer, the wholesaler, the manufacturer, the banker, the insurance company, the shipping company, the railway, the grower, and possibly also, importing and exporting merchants in the United Kingdom and the United States respectively.

In this book we shall confine our attention entirely to the retailer and the wholesaler and to the methods in which we may pay our debts in our own country. Before turning our attention to the retailer and his work, however, we must consider two other things:

(1) The classes into which we may divide all the workers of the world ;

(2) The meaning of the two words : Commerce and Trade.

TEST QUESTIONS :

(1) When you purchase a tin of Californian fruit in a British shop, what classes of workers have assisted in satisfying your want ?

(2) Trace the course of wool from the sheep's back to its appearance in the tailor's shop as a roll of cloth. Point out the different classes of people who assist in any way the movements of the wool.

CHAPTER II

ON THE VARIOUS CLASSES OF OCCUPATIONS

INTO what distinct classes may we conveniently group all those people, for example, who helped to provide Brown with the type of cigarette he wanted just at the time he wanted his smoke? What is the work which each of the classes does?

(1) Tobacco is one of those products which we often term "natural products"—a product with the growth of which Nature has much to do. Such products are not all alike. Nature provides blackberries along the sides of our country lanes and we do nothing except pick them: we do not assist Nature. The farmer, however, must spend both money and labour—not to mention time—if he desires to obtain really good crops. To harrow the field a second time or a third time may do much to improve his crop. Here then Nature and man work hand in hand to get the best results. Tobacco is of this latter class.

In addition to these crops, there are the deposits of metals and minerals. Coal and gold are provided by Nature in the earth's crust just as the blackberries are provided along our lanes. And in just the same way that we must do some work before we can enjoy the fruit, so we must do even more to get the use of either coal or gold, even to the extent of using really expensive machinery. So, though metals and minerals are provided by Nature, man must work before they are available either for use or for ornament.

Forests, too, are a natural product. Even here man can do a little to assist Nature in her work:

6 THE ELEMENTS OF COMMERCE

he can plant the saplings which, in years to come, will form the forest. But having planted the saplings, man can rest content : Nature will do the rest.

Lastly, we may mention fishing in which man catches what Nature has provided. But man must take care that he does not catch the fish in any one spot in such large numbers that the supply of them in that particular spot is exhausted. If exhaustion point should draw near, that fishing ground must be allowed to rest ; fishing there must be stopped so as to give time for the stock of fish to be replenished.

Agriculture, Mining, Fishing and Forestry belong to a class known as "Extractive Occupations," and a little consideration of what we have said will make it obvious that an extractive occupation is one in which man obtains either what Nature has provided absolutely, as in the case of the gold or the blackberries ; or what Nature has provided with more or less of man's assistance, as in the case of crops such as wheat or fruits. In the case of Mining, the reader will realize that once the stock of gold, coal, iron, etc., is exhausted, nothing that man can do, will make further mining possible there. On the other hand, man can do much in the other cases to prevent the exhaustion of, and even to add to supplies. He can add nourishment to the soil by using fertilizers and by refraining from growing the same crop in the same soil year after year ; he can plant trees and leave Nature to rear them ; and he can see that trees are not cut down wantonly ; he can refrain from fishing in seas which are showing signs of exhaustion and so give time for the stock to replenish itself ; or he can even introduce fish brought from other waters to increase the stock.

(2) Raw materials provided by extractive workers **are of little use**, however, if they remain in the spot

where they are produced : they must be taken to those who change the form of the materials to make the things that people require. Tobacco is grown in Virginia, as we have mentioned, but it must be changed into cigarette form before such people as our friend Brown can have their wants satisfied. The majestic oak-tree may cause admiration when seen growing, but to see the tree growing will not be enough for the person who wishes to buy an oak table or oak chairs. Again, as we pass through fields of ripening wheat, we may be tempted to take an ear and eat its contents, but there are few of us who would like to eat much wheat in that form : we much prefer it when it has been ground into flour and the flour baked into bread. Slack from the coal mines is very similar. Used as it comes from the mines, it seems to do little besides put out our fires, but manufactured into bricquettes, it helps to keep the fire alive whilst we leave our homes for hours ; or, when converted into coal-gas, it is most useful for lighting and heating our homes and cooking our food.

All these people who change the form of raw products are said to be engaged in manufacturing. The length of the manufacturing stage varies considerably. For example, the slack from the coal-mines may be used up at the gas-works of a neighbouring town within a very short period of time. But in the case of such raw materials as cotton, the stages or processes in manufacturing are much longer. The cotton must be spun into yarn by the spinner ; the spinner hands over his yarn to the weaver who manufactures it into cloth ; the bleacher, the dyer, and the printer may all work on the cotton-cloth before it appears finally in our shops in just the form that we desire. Each of these varied processes carries the cotton one stage farther from the raw state ; one stage nearer to the finished product : each aims at changing the

8 THE ELEMENTS OF COMMERCE

form of whatever it deals with—yarn or cloth—so that it will meet the needs of the public.

We may describe manufacturing, then, as all those processes which deal with a product which Nature provided in the first place, and which change the form of that product into one in which people desire it. This being so, it will be obvious that extractive and manufacturing occupations must work hand in hand : the former provide the material on which the latter work. To enable these two classes to work hand in hand in this way there is need for some connecting link ; the manufacturer must somehow get his raw material from the producer of it. This link is provided by a third class of workers, which we must now turn to consider.

(3) It will be remembered that, in examining the work which was necessary to get Brown's packet of cigarettes to the shop at which he bought it, we mentioned railways, ships, insurance, banks, and dealers of various kinds. These are the classes of workers who see that the manufacturer gets his raw materials ; who see that the goods made by the manufacturers reach such people as Brown. We may say, therefore, that all these workers are allied in an effort to provide the things that people require. They do more than this, however, for it is necessary not only to provide what is required but also to see that those things are provided in the proper place and at the right time. People who do this type of work are said to be engaged in Commerce : we term them the Commercial class. It is to them that we all look for the satisfaction of all our wants at the times and places and in the quantities which are convenient, not to them, but to us. Brown wants his morning smoke ; the manufacturer of cigarettes requires the tobacco with which to make them. Both have their wants satisfied by the Commercial group.

We may thus conclude that the work of the Commercial class is to link up not only the extractive class with the manufacturing class but also the manufacturers with the buyers of their products, whether those buyers be wholesalers, retailers, or the general public. By acting as a connecting link in this way, it will be clear that commercial workers relieve the extractive and the manufacturing classes of much work, time, and worry, and thus enable them to give the whole of their attention to either the producing of the raw materials or the manufacturing of the finished article, as the case may be. Obviously if the grower had to find buyers for all he grows and the manufacturer had to do all the work of visiting every retail shop in which his goods are sold to get orders, much more work would be involved than is the case when, maybe, one or two commercial people buy the whole of a crop or of a manufacturer's stock and do the rest.

(4) In addition to the three types of occupation named above, there is a large and somewhat mixed class to which the name "Direct Services" is usually given. In this class must be placed all those whose main duty is to render services to those in the other three groups or to others in their own group. Before Brown set out for work, he probably received letters by post. The postman who delivered those letters clearly performed a service of value to Brown and we say, therefore, that postmen belong to this "direct service" class. If Brown happens to be a banker, the postman's service is rendered to the commercial class. On the other hand Brown may be a hairdresser. If so, it is quite possible that, during the course of the day, he may cut the hair of the very postman who left him his morning letter. Brown's service to the postman would be as direct as the postman's earlier one to him. Here then is an example of a direct service

rendered by one member of that group to another member.

Again our country has not always been as peaceful and orderly as it is to-day. Highwaymen exist no longer because our system of law and justice has been improved so much. May we not say, then, that our policemen and our judges render all of us "direct services"? May we not say that it is largely due to them that Brown was able to walk down to his retail tobacconist with little fear of being forcibly relieved of his last shilling?

Sooner or later in life, most of us require the aid of the medical man and of the dentist. Both of these men give personal attention to us: they render us direct service. No matter how many teeth the dentist may extract, he is giving us direct service and we must not term him "Extractive."

In the "Direct Service" group, then, we must place all those who render services to others either in the other classes or in their own. Such services are varied in type and do not involve either producing raw materials or manufacturing them; transporting them or insuring them; buying and selling them or paying for them. Soldiers, sailors, judges, and policemen all give us a sense of security and of support in case of need; clergymen and teachers can do much not only to instil knowledge but also to promote honour, good-will, and high principles, all of which do so much to make life run more smoothly; singers, actors and actresses—entertainers in general—do much to give us happiness in those leisure hours after a day of toil when we are really preparing our minds or bodies for the next day of work; the doctor and the dentist help us to keep fit and well; the solicitor helps us out of our troubles in many ways; and domestic servants give direct personal services in ways too numerous to mention.

TEST QUESTIONS :

(1) How do you distinguish a commercial worker from a manufacturing one ?

(2) Into what classes of occupation would you place the following ? Give your reasons fully ;

(a) A dentist ;

(b) The captain of a pleasure steamer ;

(c) The manager of the Western Region, British Railways ;

(d) The stokers on a cargo boat.

(3) How would your life be affected if there were no commercial workers ?

B

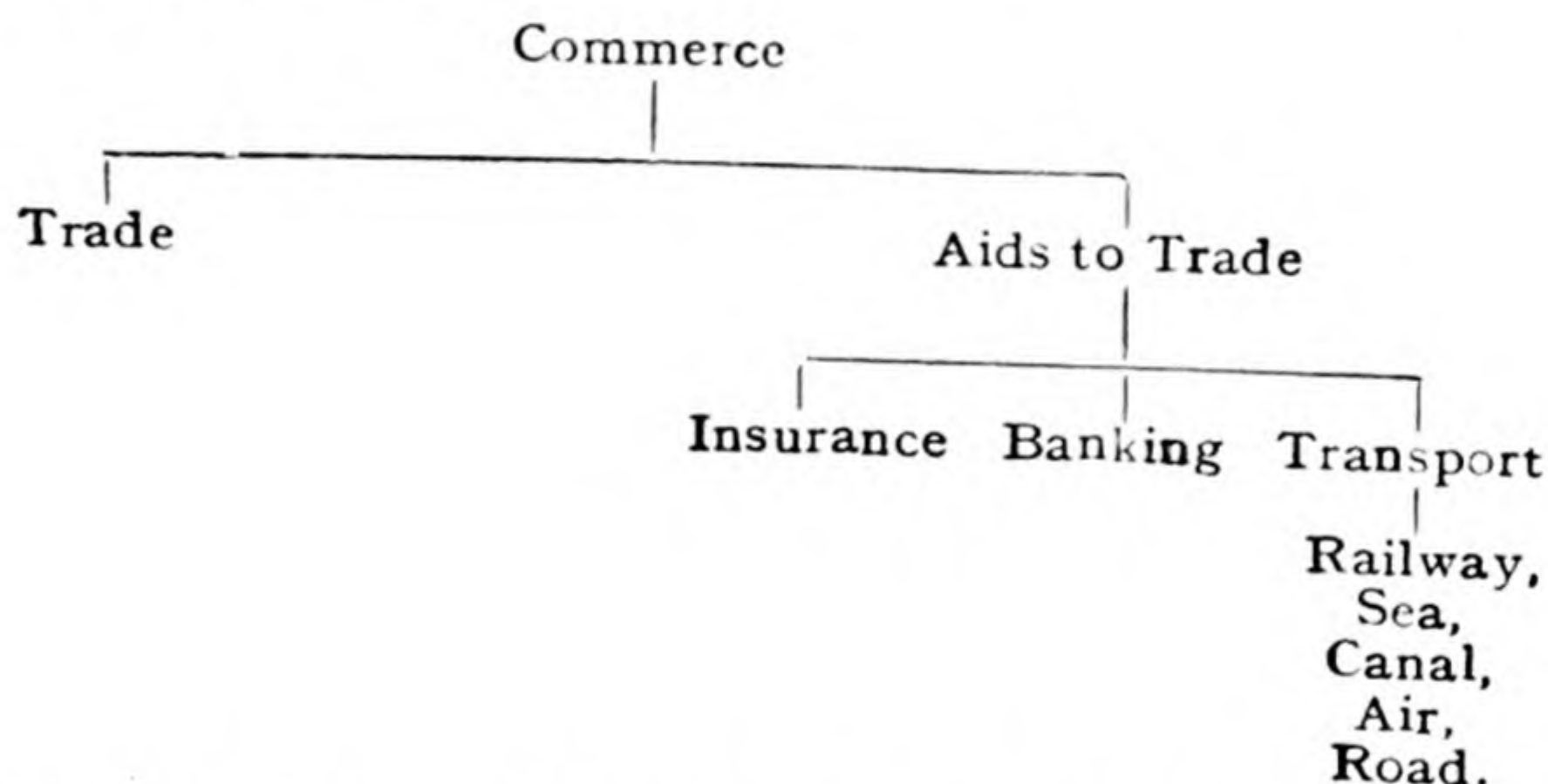
CHAPTER III

ON THE MEANING OF COMMERCE AND TRADE

IN the preceding pages we have drawn attention to the long chain of dealings which lies behind the purchase of even the smallest articles as a rule ; and we have attempted to group or classify the many workers involved, according to the type of work they do. Now we must take a further step and see what we mean exactly when we speak of "Commerce" or of "Trade."

Our examination of the commercial group of occupations has given us the clue to the meaning we must give to the word "Commerce." The aim of all those engaged in Commerce is to distribute the whole of the raw and the manufactured food-stuffs and products of the world so as to satisfy all our wants. The people of the British Isles require the fruits and the rubber which can only be obtained in tropical lands ; the teas, the coffees, and the rice of such countries as India and China and Brazil. In other words, we require things which we cannot produce for ourselves. Some of us prefer to have the laces of Venice rather than those of Nottingham ; or the Italian motor-car rather than a British car. So we also bring into our country things which we ourselves can produce. To get all these things to the places in which they are required is the task of the commercial workers. Hence Commerce includes not only the buying and the selling of the goods, whether at home or abroad, but also all other work which makes that buying and selling possible or easier and which enables what has been bought or sold to be moved to the required places. The

mere buying and selling we may term "Trade," and when we speak of "Trade," therefore, we must realize that it is merely a branch of "Commerce." Banking makes it possible to pay for goods purchased abroad almost as easily as for those bought at home, whilst Insurance covers the risks which always exist when things are sent by land or by water to their destination; and Transport makes it possible to get the goods moved from one place to another. Without any one of these—Trade, Banking, Insurance and Transport—Commerce would be either impossible altogether or ever so much more difficult; many of the wants of mankind would have to go unsatisfied. The reader may find the following diagram useful in assisting him to understand what the word "Commerce" must always be taken to mean:



Now we may take the word "Trade" and consider what we are to understand when we use that word. Let us return once again to Brown and his cigarettes.

Brown bought his cigarettes from someone living in the same country—the retailer. The retailer, in turn, bought his stock of cigarettes from a wholesaler also in this country. We may go further and say that the wholesaler probably bought his stock from a manufacturer whose place of business

was in our own land. Because of these facts we say that all these people are engaged in the "Home Trade." On the other hand, when the maker of the cigarettes buys his tobacco for them from some dealer or grower out in Virginia, we say that he is taking part in "Foreign Trade." We may divide trade into two big branches, home and foreign. If the persons concerned in the dealings live in the same country, the trade is home or domestic trade; if they are resident in different countries then the trade is foreign.

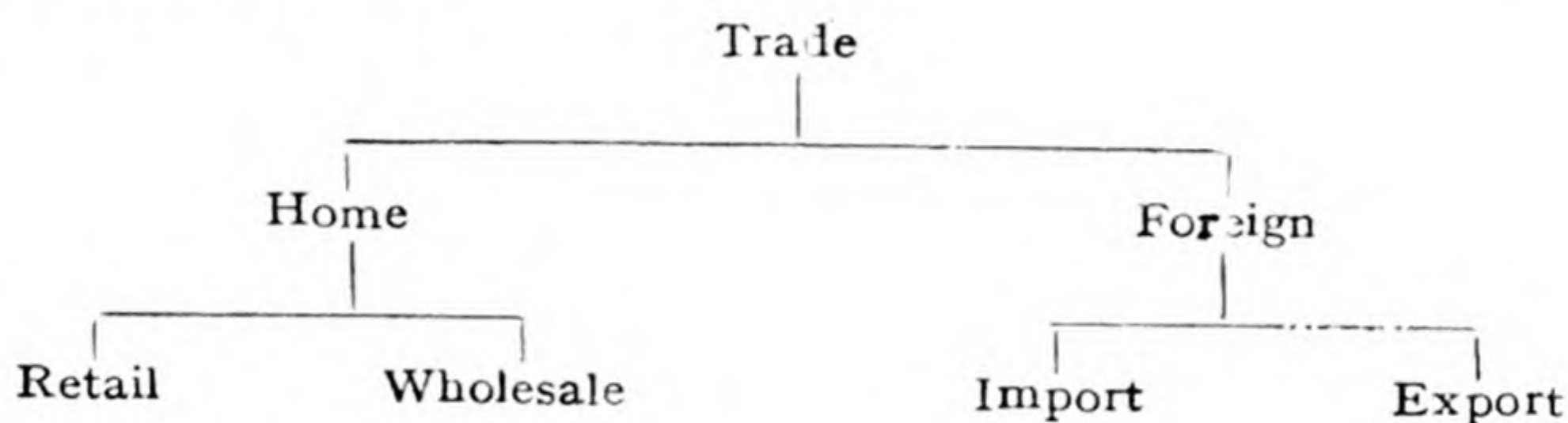
Each of these big divisions of trade, however, may be split up further. It will have been observed that Brown bought his cigarettes at a shop where he could buy a single packet, i.e., at a retailer's. Of course, he might have bought a dozen packets of the same kind, even at that small shop. But had he asked for a thousand packets, the retailer might have been quite unable to meet Brown's needs. People who are prepared to sell in small quantities to persons such as Brown, are said to be engaged in the "Retail Trade." The traders who buy larger quantities of things from the makers to sell in smaller quantities to the retailers are engaged in "Wholesale Trade."

Thus, Home Trade may be considered as being made up of Wholesale and Retail dealings.

In the same way, we may say that Foreign Trade includes two branches—one which deals with the buying of foreign goods abroad and the other which concerns the selling of our own goods abroad. When we buy goods abroad, we are said to be "importing": we bring goods from foreign countries into our own. Persons who do this work are known as importers and the dealings which they make we term Import Trade. On the other hand, if we sell goods to someone in a foreign country, the goods are sent out of our country into that of the foreign buyer. We are said to be exporting goods;

the name exporters is given to the traders themselves ; and the term Export Trade is applied to their dealings. We, in the British Isles, have need to make very big purchases abroad to provide ourselves with foodstuffs, and raw materials with which to manufacture. Our imports are consequently heavy. But with the raw materials, we manufacture goods which are sent to all parts of the world. Hence, our export trade is also heavy.

Foreign Trade, therefore, consists of two branches—Import Trade and Export Trade. Making use of the diagram once again, we may show our division of trade thus :



TEST QUESTIONS :

(1) Is it strictly correct to say that the British are a " trading " nation ? If not, why not ?

(2) On what grounds do you consider Bankers and Transport Workers as " Commercial " ?

Part II The Retail Trade

CHAPTER IV

ON THE RETAILER AND HIS WORK

A WALK along one of the main shopping thoroughfares of any of our towns is sufficient to bring to our notice the prominent place which the retailer occupies at the present day. The same walk, if we be observant, will also suffice to show us firstly, that all retail shops are not of the same size; secondly, that the names which appear above the shops also vary; thirdly, that in most of them we see a variety of goods displayed; fourthly, that some of them have branches in other towns; fifthly, that others have different departments for different kinds of things. These things are only a few of the points which will strike us on our walk but they are some of the chief features of our retail system.

Taking the shops of our typical street as a whole, we shall find in them goods which have come, by means which we have already mentioned, from all parts of the earth. We may see potatoes which have probably been produced within quite a short distance of the shop in which we see them; tomatoes which may have been grown in this country or which may have come from abroad; bananas which certainly must have come from foreign lands much hotter than ours. The butcher's shop may exhibit two notices in the windows: the word "English" being printed on one, the word "Imported" on the other. Here, again, then we have the flesh of

animals reared either at home or far-away on the plains of Australia and New Zealand. The grocer's shop will show us that we may buy there the teas of Ceylon, China, and India ; the coffees of Brazil and Arabia ; the tinned fruits of British Columbia and California ; the butter of Ireland and of Denmark ; and the tinned milk of Switzerland.

We might multiply these examples many times but enough has been said to convince the reader of the fact that the retailer keeps a varied stock of goods with the object of being able to supply our wants at a moment's notice. His sole reason for keeping such a stock is that his customers are in the habit of asking for such things or that he thinks they are likely to form that habit. He does not stock his shop well because he hates to see empty shelves, but because he feels he will be able to sell his goods at a satisfactory profit.

The retailer's first task, then, is to cater for the needs of his customers. If he wishes to make his business a really successful one, he must always be on the alert so that he can note, at the earliest possible moment, any change which may be taking place in the character of his customers' requirements or of their tastes. Human beings are very changeable on the whole and this is particularly true in some special directions. Let us take dress as an example. We may find in a certain year that gentlemen are wearing felt hats more than any other type. In the following year, the felt hat may be quite in disgrace. A certain type of dress may be the fashionable one for ladies this year but it will certainly not be so next year. The retailer must watch all these changes very carefully, because it will mean a big loss to him if a thing goes out of fashion completely when he has a shop well stocked with that particular thing. This being so we may say that, in order to carry out his first duty of catering for his customers' needs, a retailer must try to

anticipate what those customers are likely to ask for next and to have the goods ready for them when they do ask. In other words, he must try to make himself an expert in anticipating what people are going to ask for next.

Some retailers require payment for their goods immediately ; others are prepared to allow customers to have goods for which it is only necessary to pay after a time. In the latter case we say that the retailer grants credit to his customers. Now before the retailer allows customers to have goods on credit, he must know something concerning those people : he must make it his business to find out whether they are likely to prove trustworthy. If he does not do so he may find that he has difficulty in getting paid for his goods and, consequently, that he is lessening the amount of money he has available for buying more goods. A third duty, then, falls to those retailers who give credit : to study the character of their customers in order to decide (*a*) whether to grant credit at all ; and (*b*) how much credit to allow in those cases where some credit may be granted.

All retailers, however, are not concerned simply with buying goods to sell to their customers. The dealer in boots and shoes is usually prepared not only to sell us his goods but also to do repairs to any boots or shoes of ours which may need attention. Moreover we need not have bought those shoes from him at all. The jeweller will sell us watches, clocks, rings, etc., and he will also do any necessary repairs to them. The cutler will sell us knives and will also sharpen them. Those of us who possess bicycles know that cycle dealers will sell us bicycles and will also repair our punctures, though they may charge us more for dealing with the puncture than it would cost us to do it ourselves had we the time, the skill, or maybe, the energy. And our more fortunate fellow-citizens who possess motor-cars know that

the agent who sells cars will also make all necessary repairs and, in most cases, also provide garage accommodation.

We may now sum up our examination of this part of the retailer's work by saying that he renders the following services to his customers :

- (1) He keeps a varied assortment of goods.
- (2) He is willing to sell in small quantities.
- (3) He is often prepared to grant credit.
- (4) Sometimes he also undertakes repair work.
- (5) His shop is usually situated in a convenient position.
- (6) As he often lives amongst his customers, he can give them and their wants his personal attention.
- (7) By anticipating his customers' wants, he enables them to satisfy those wants immediately they arise.

There is just another side to the work of the retailer ; another set of services rendered by him, not to his customers, but to those from whom he buys his stock. It has been pointed out already that a retailer must obtain his supply of goods either from the makers of the goods or from another dealer in large stocks, viz., the wholesaler. Manufacturers and wholesalers look to the retailers to assist them in getting rid of their stocks of goods. It may be said, therefore, that the retailer finds the final buyers of goods. Clearly if we—the general public—did not buy things there would be no need for manufacturers, wholesalers, or retailers. But as we have numerous wants, and as it is the retailer who usually lives amongst us or, at least, has his business amongst us, it is he who is in the closest touch with us : it is he who sells the goods to us in most cases. So we say that the retailer “ finds a market,” that is he finds buyers, for the goods of the manufacturer or of the wholesaler.

He renders a further service to the makers of

goods, especially if he is an alert and shrewd retailer. He may notice a decided increase in the demand for a certain thing ; or he may observe a distinct falling away of the demand for something else. In such cases he will probably increase his orders or decrease them respectively. If all retailers were to do likewise, obviously the makers would obtain most valuable information. In the one case they would learn that more of their goods were being wanted ; in the other case less. They would, therefore, get their machinery moving to increase their production of the one and would cut down their production of the other.

We may conclude by a summary of these services rendered to the maker by the retailer.

- (1) He finds a market for things produced by the manufacturer.
- (2) By his orders, he gives the maker valuable information concerning the market, i.e., whether buyers are increasing in number or decreasing ; whether orders are increasing or decreasing not merely in number but in amount.

TEST QUESTIONS :

- (1) Which part of a retailer's work do you consider to be of greatest value to you ? Give your reasons fully.
- (2) What do you understand by " finding a market for goods " ? How does the fact that the retailers find a market for the manufacturers' goods assist the latter ?
- (3) " The retailer is the last link in a long chain." Explain this statement as fully as you can.
- (4) If retailers ceased to exist what would be the consequences to :
 - (a) the manufacturer ?
 - (b) the wholesaler ?
 - (c) you ?

CHAPTER V

ON THE VARIOUS TYPES OF RETAIL SHOP

IN the early part of our last chapter, we stated that if we looked around us in walking along a shopping thoroughfare, we should notice that all the retail shops were not of the same size. On this side of the street we should see a little millinery shop with a window no larger than that of an ordinary sized house, whilst, a door or two away, there would be another shop of the same type but much larger in size and with far larger windows in which to display the goods. A little further along we might observe a huge shop with many windows in which not only millinery but furniture, furs, drapery, clothing, etc., are displayed. Looking across the road we might see a shop belonging to Liptons, or the Maypole Dairy Company, or Boots, the Chemists, all of which we realize to be merely one shop belonging to a firm possessing many such branches in almost every important town in the country.

But no matter whether the shop be large or small ; no matter whether it be the only shop possessed by the proprietor or merely one of many ; its work is the same, viz. : to provide the last link in the chain of distribution, for, as we have seen, retail shops exist for the purpose of supplying the general public with the things it requires just as, where, and how it needs them. In doing this work, however, the owner or retailer expects to make a profit and so earn his livelihood. He must know then, how his business is doing—well or badly ; he must see that there is no extravagance in any way for extravagance means loss ; and, of course, he must have

the goods to sell. All this means that, to be successful, the retailer must organize his business well. Every retail shop, whether Harrods', the Maypole Dairy Company's or a small local milliner's, must be organized. And the organization of all of them is many-sided in character. In the first place there are the arrangements for the buying and the selling of the goods, and the latter naturally includes the fixing of the prices at which the things are to be sold. Secondly, if the proprietor is to know whether he is making a profit or incurring a loss on the trade he does, he must have some system of keeping accounts, a record of the money he pays out and of the money he receives. Thirdly, if there is a staff of assistants, there must be some supervision to ensure that they do their work in a proper manner. There must be someone to see that the shop itself is made attractive and kept clean: an unattractive and dirty shop usually keeps good customers away. And, fourthly, when the retailer has succeeded in attracting customers and in selling goods to them, he may find it necessary to make arrangements for their delivery to the homes of the buyers.

It may appear foolish to speak of a small shop being organized in the above manner. But the work just mentioned must be done to make the business really successful. What we have to bear in mind is simply that if the shop is owned by one man and he is the only one in the shop besides, perhaps, an errand boy, then that man must make all the arrangements himself. He will be buyer, seller, packer, and book-keeper all rolled into one. On the other hand, if two friends or two relatives own the business, they will divide the work between them. If we go to a larger business, we shall find the duties becoming heavier and all the more important because of that fact. And when we get to the really large, retail shops we shall find that the person who **manages** the keeping of the accounts has nothing

at all to do with either the buying and the selling of the goods or the supervision of the staff: the whole of his time can be devoted to his own particular task.

We gather, therefore, that the organization of a Retail Shop involves consideration of the following matters:

- (a) Buying the goods and arranging for the sale of them.
- (b) Keeping the accounts or books so that, almost at a glance, it may be seen whether the business is doing well.
- (c) Supervising the staff and generally arranging to make the shop or store attractive.
- (d) Arranging for deliveries where necessary.

Owing to the differences in size and in other ways, however, the above organization must not be taken as one typical of every retail shop. It merely points out the main arrangements which any scheme of organization must make.

Now we must consider retail shops of the type of Harrods or Selfridges on the one hand; and of Lipton's or the Maypole Company on the other. The former we observe to occupy one huge shop or store divided up into what are termed "departments" but which are larger than many retail shops we see. The latter we find with a large number of shops, one in every town in the country almost.

To these two types of big retail shops we give special names. To the Harrod type, because it is divided up into departments, we give the name "Departmental Store." The Lipton variety, because of its many branches, we term a "Multiple Shop" business. Of both types we hope the reader will be able to find examples in his own town. Let us now examine these two types a little more closely with a view to learning what the chief differences between them are.

The Departmental Store.—A large store in which

customers may buy goods of almost every conceivable kind is obviously bound to attract. Once inside the building, a customer is more than likely to buy something more than he intended when he entered. Shopping at such stores kills, not two birds, but many birds with the same stone. And so, departmental stores have usually done much harm to the small retailer in the same district.

Each department in these stores is really a separate shop. There is a Head over each—usually known as the “Buyer”—and it is his duty to organize the work of his section. He purchases the goods and fixes the price at which they are to be sold and he is expected by the Head of the whole store or by the proprietors to make a profit, not by selling a few things at a big profit but rather by selling many things at a smaller one. What the owners desire is a large number of customers and so, as a rule, they do not allow any Buyer to make prices in his department high in order to show a better profit than that made by another section of the store. Nor do they allow him to spend too much on goods for his department : they fix a limit beyond which he must not spend without the permission of the Head of the firm.

Goods sold by the staffs of the various departments are usually handed over to another department to be packed and forwarded to the purchaser, where required. Over this section, too, there is a Head. The Buyers have nothing to do with this side of the work ; their work is to buy the goods and to sell them. Similarly they have nothing to do with money matters. That, again, is the work of a separate department under the control of a different Head.

The Multiple Shop.—Firms such as Liptons control the work of their many branches from a Head Office, where there are the men who do the most important work. Each branch is in charge of a Manager, but, unlike the Buyers of a Departmental

Store, the Manager has nothing to do with either the buying of the goods he sells or the fixing of the prices at which he sells. Those duties are done for him at the head office. His duty, then, can only be to make his branch do a good business by attracting customers and by keeping them once he has attracted them. To show the Heads of the firm what his branch is doing, he must send in reports at stated times. If his stock of anything should run low, he must ask for more of it from the firm's warehouses. His aim is to keep, at his branch, as varied a stock of goods as possible. The fact that he can get goods quite quickly from the firm's warehouse when he runs short, makes it unnecessary for him to keep a big stock of anything. Hence he has all the more space in his branch for displaying a greater variety of goods.

Branch managers, in spite of not being in such a privileged position as Buyers in a Departmental Store, have some encouragement to do their best. For, as a rule, the firms give their managers a money reward when the sales by the branch show increases. In addition, as all branches are not of the same size, there is always a chance of the really go-ahead branch manager being promoted to a larger, more important, and therefore, better paid branch.

Finally it may be mentioned that the Branch Manager, unlike the Buyer, usually has to arrange the delivery of the goods he sells. On the other hand he is like the Buyer in having little to do with the money side of the business. As a rule he has to pay into the bank, selected by the firm, his daily takings and under no circumstances can he draw money from the bank. The most we can expect him to have to do is to pay the wages of those under him and of himself with money with which the Head Office provides him.

The Co-operative Society.—A retail co-operative society is a business owned by the members of the

society, people living in the town or area, who have subscribed or agreed to subscribe a minimum sum of £1 as their share of the society's capital. Each society has its headquarters at which goods of every conceivable kind are to be bought, and its branches, scattered in all parts of the town or area, at which only necessities are stocked as a rule. Retail co-operative societies, therefore, are really a combination of the Departmental Store and the Multiple Shop, the headquarters representing the former and the branch shops the latter type of retail shop.

Each society is controlled by a Management Committee consisting of a certain number of members elected by their fellow-members for that work. There is a General Manager responsible to the Management Committee for the successful running of the business. Each department at headquarters is under the control of a Manager, who corresponds to the Buyer in a Departmental Store, and each branch shop is controlled by a branch manager just as in the case of Multiple Shop concerns.

Members share in the profits made by the society, a certain portion of these profits being distributed at certain times amongst the members in proportion to the value of the goods they have bought through the society.

Enough has now been said to enable the reader to realize the difference between the various types of retail shops which he sees daily. Further details he must learn at a later stage in his studies.

TEST QUESTIONS:

(1) If, along with two other persons, you were to set up in business as a Retailer, how might the work be shared out amongst you?

(2) Which would you rather be: a Branch Manager or a Buyer in a Departmental Store? Give your reasons fully.

(3) What differences would you expect to find between the organization of a large retail shop and that of a small one?

(4) Do you consider Departmental Stores or Multiple Shops the more valuable? State your reasons fully.

CHAPTER VI

ON RAISING THE CAPITAL

BEFORE being able to set up in business even as a retailer, a man must obtain capital somehow. Sometimes he may save the required amount ; at other times he may borrow it ; or he may save part of the amount and borrow the rest. We have assumed, however, that the retailer of whom we speak intends to run the business himself, let us say under the name of " F. J. Wilson." In such a case Wilson's business is said to be a " one man business " and he himself is styled a " Sole Trader." He alone will be responsible for all arrangements ; he alone will have to bear any losses and he alone will take the gains. But he will, of course, have to pay interest on any money he may have borrowed. That is to say, he will have to pay the lenders a certain sum at fixed dates for the loan of the money.

But Wilson, even at the very outset, may have arranged to join a friend in setting up in business, each of them providing a portion of the capital required. Then the firm becomes " Wilson and Walker " and Wilson and Walker each take a share in the management or running of the business. We say they are " Partners " and that their business is a " Partnership business." If there are any gains or profits made, both will share in them ; in the same way, they will share the losses.

But Wilson may desire to set up in a business which will require more capital to commence than either he alone or he and his friend Walker together can provide. Then he must find a new way of raising that capital. Of course, he might just join hands

with Walker and borrow money to add to their own joint funds. In this case the business would still be a partnership. On the other hand he might obtain the capital by inducing a larger number of people to subscribe funds ; to buy " shares " in the business. When this is done the firm becomes a " Company " and all the people who provide capital by buying shares in the business we term " shareholders." Now the firm's name becomes " Wilson and Co., Ltd." Let us suppose that £10,000 is required to commence the business and that the shares are of one pound each. Wilson may take 500 shares ; that is, he subscribes £500 of the £10,000. Walker may take 1,000 shares and so on until the whole of the £10,000 is obtained.

We may now ask who manages the business. If all the people who provide the capital also have a say in the running of the business, it will be a case of too many cooks spoiling the broth. This danger is avoided in a Company by making the shareholders appoint a sort of Committee to manage the business. To this body we give the name Directors. On the directors falls the task then of making the business successful. In the case of Wilson and Co., Ltd., it may be that Wilson will be appointed " Managing Director." That is to say, he will be in charge of the staff and of the whole of the work done. But he will not be allowed to do everything without consulting his fellow-directors ; he is merely *one* of the people with a voice in the matter. In fact he carries out the decisions arrived at by the Directors who will meet from time to time to make these decisions and to receive reports from the Managing Director. Just as the Directors desire to know what the Managing Director is doing, so the remaining shareholders desire to know what the Directors are doing ; to know that the capital they have subscribed is being used wisely and well. So, at intervals, a shareholders' meeting is held and at this the Directors give a

report of their work. The shareholders are told how the business has done and what its prospects are and they are permitted to ask any questions they may wish. If the firm has done badly, they may even criticize the Directors and possibly call on them to resign. We gather, then, that the Board of Directors is responsible to the shareholders ; the Managing Director to the Directors.

Like all other businesses, Companies may make money or they may lose it. If they make profits, those profits are available for distribution amongst the shareholders as a dividend, i.e., a payment from profits to those who have taken up shares in a company. In good years the dividend may be large ; in bad years it may be quite small or a dividend may not be paid at all. Shareholders then, share in the profits of the company by receiving dividends ; they share in the losses by receiving either much less in dividend or nothing at all.

We are now in a position to examine the differences between " F. J. Wilson," " Wilson and Walker," and " Wilson and Co., Ltd.," that is to say, between a Sole Trader, a Partnership, and a Limited Company. These differences may be summarized conveniently thus :

- (1) In a one-man business the owner takes all profits and bears all losses whereas in a partnership these are shared by the partners, in a company by the shareholders.
- (2) A Sole Trader must run the business himself and take responsibility for everything, whereas those duties will be divided amongst Partners or taken on by a Board of Directors respectively in the other two cases.
- (3) The Limited Company has usually a larger capital than the Partnership and the Partnership capital is greater than that of a Sole Trader as a rule.

Lastly we come to the difference arising out of the word " Limited " in the case of the company.

- (4) If a one-man business or a partnership business fails to pay, it must cease. All the firm's debts must be paid in the one case by the Sole Trader ; in the other by the partners either jointly or individually. Even the private possessions of the owners of the business must be sold, if necessary, to pay those debts. But if a company is obliged to cease owing to its heavy losses, the shareholders cannot be asked to pay any more as a rule. Their private possessions cannot be touched.

Once again we must warn the reader that the differences between one form of business and another are far more numerous than our account may lead him to believe. He must remember, therefore, that he has much more to learn later in his studies than we can possibly mention here.

TEST QUESTIONS :

- (1) You are about to set up in business and require a capital of £1,000. In what ways may you raise that sum ?
- (2) If you require a capital of £500,000 to set up a business, how will the methods of raising it differ from those for raising 'say) £5,000 ? Give reasons wherever necessary.
- (3) Distinguish carefully a Partnership and a Company.

CHAPTER VII

ON USING THE CAPITAL

WHEN the retailer has decided whether his business is to be a one-man business or otherwise ; when he has decided whether he is to have just one shop of moderate size or a larger store or a number of branch shops ; when he has raised the funds necessary for starting even the smallest business, he has not finished his preliminary work by any means. He has still to determine the exact ways in which his funds are to be spent. First of all he must decide whether he is going to take over a vacant shop (or shops), or whether it would be better to purchase one or more of the type required which are already fitted up and selling the same type of goods he wishes to sell. Secondly, if he has a choice of shops, he must make up his mind which one is most likely to suit his requirements ; which is the most likely one to bring him success. Thirdly, he must decide how much of his capital he can afford to spend on each of the various essentials : shop, fittings, stock, etc. We must, therefore, consider now what will lead him to decide either one way or another on these matters. Let us assume that our retailer is merely going to open a single shop of moderate size.

As has been pointed out, there are two main ways of setting up a business—taking a vacant shop and buying a business already in existence. If the retailer intends to buy an existing business, he will find that the seller frequently desires to sell not only the stock and the shop fittings such as counters, shelves, etc., but also the customers (or their custom) which he has attracted to his shop. In other words the buyer will

be required to pay a sum larger than that which represents the value of the stock in the shop and the shop fittings. The surplus sum paid is said to be paid for the "Goodwill" of the business. What are we to understand, then, by this term "goodwill"?

Every retailer does all in his power to get customers into his shop. The success of his business depends to a great extent on his success in this direction. Often he has to work exceptionally hard to get customers, and, frequently, to work harder still to keep them. By his own personal efforts he builds up, maybe very gradually and laboriously, a "business connection," that is a number of people on whose custom he can rely. These people are really the basis of his success. Other customers—casual customers—may call at his shop and buy but they do not make a regular habit of doing so. They help to swell the sales of the retailer but he cannot rely on them in the same way that he can rely on his regular customers. Hence when he sells his shop he says to himself, quite naturally, "Why should I have to hand over this regular trade, to get which I have worked long and hard, and not receive any payment for it?" But the intending buyer, to whom he can prove the existence of such regular customers, is not likely to object to paying something for these customers, or, rather, for the probability that they will continue to buy at the shop despite a change in the ownership. We may say, therefore, that, when we say a certain sum is paid for the goodwill of a business, we mean that it is paid as compensation or reward to the seller for past efforts; for the reputation and the connection he has worked up in the locality by those efforts. Payment for the goodwill of a business will consequently vary from case to case. In some cases, where the retailer has let his business decay, the goodwill will be worth nothing; in other cases where the business is a very thriving one the goodwill will be exceedingly valuable and will constitute quite a

good percentage of the total sum paid by the buyer for shop, stock, and goodwill.

Now let us examine what other points the intending buyer will consider before taking either a vacant shop or one already doing business.

The position of the shop is clearly a matter of great importance. Shops which are situated in out-of-the-way corners of a town, or in streets not much used, are not likely to attract the notice of customers. On the other hand, shops situated at busy corners or in much-used streets are almost certain to receive attention. We seldom fail to find a chocolate and a tobacco shop close by places of amusement, by post offices, by railway stations and by bus termini—all places where people are likely to pass frequently or gather often. In the same way we rarely find a railway station without a bookstall or the promenade of a seaside resort without its stalls at which all manner of eatables are to be had : they are there because those places are much frequented by possible buyers.

Again, a locality may be growing in size and in importance or it may be decaying. The setting up of new industries in a locality, the commencement of industries in a new locality, the sinking of mines in a fresh area, the extensive building of residences in a spot hitherto almost uninhabited—all indicate growth and development and therefore good prospects for tradesmen. But the closing down of mines and factories and the presence of large numbers of unoccupied houses may be taken as a bad sign by the intending buyer of business premises in those areas : such things usually indicate decay.

A further point to consider is the amount of competition there is already in existence. It would be foolish to set up a new business in a locality which is already quite well supplied with businesses of the same type, but it might be quite satisfactory to buy one of the businesses already in existence.

In some localities business may be carried on entirely on a cash basis; the people are accustomed and prepared to pay for the goods they buy when they buy them. But in some areas, the customers expect to be given credit. Giving credit is equivalent to lending money and the retailer who has to give credit largely will find that he has less money to make further purchases than he would have if he received cash down for the goods he sells. Thus if the business is going to be largely or wholly a credit one, the buyer will require all the more capital to make it a success.

The buyer, again, will always consider whether the premises offered to him are suitable both in form and in size; or whether they can be altered to suit his needs without too heavy expense if they are not suitable. Some buyers like to feel, moreover, that they have space for extending their premises sooner or later, and especially if their intention is to build up a departmental store.

Clearly, too, the buyer will wish to know what he will have to pay annually in the way of rent, rates, taxes and the like. And, as some shops are let on lease, that is for a number of years only, the buyer will take the precaution in such cases of finding out how many years of the lease have still to run. He will not desire to take over a shop this year from which he may be turned out next year owing to the fact that the term of years is up.

Having decided on the premises he is going to occupy, the retailer must next give his attention to the equipment and the stock. He must not spend all the funds he has at his disposal in the purchase of a shop and in the equipment of it: he must reserve some as "working capital." That is to say, he must have funds available for use in retailing. He must purchase the goods he is going to sell; he must keep sufficient money in the bank to make payments for such things as wages, rent,

rates, taxes, lighting ; he must also keep sufficient in hand to pay for the goods he buys from the wholesaler. Again, he should have some cash at the bank to enable him to grasp any opportunities which may arise of obtaining bargains. And, if he grants credit, he must keep even more cash at the bank for, if he does not get paid for his goods at once, he does not get his money back at once to buy more goods.

TEST QUESTIONS :

- (1) What do you understand by " Working Capital " ? Why is it so important to keep sufficient of such capital ?
- (2) Why is the buyer of a business prepared to pay for the Goodwill of it ?
- (3) Which do you consider to be the most important thing to which a person about to set up as a retailer should give his attention ?
- (4) Name any three kinds of retail shop and state what you consider would be an ideal position for each.
- (5) Explain fully the way in which trading on a credit basis affects the amount of capital required for the business.

CHAPTER VIII

ON BUYING THE STOCK

A.—*General*

HAVING obtained a shop, the retailer is now faced with the problem of buying the stock for it. We use the word "problem" deliberately, because much of the success which is achieved by the retailer will be due to wise buying; or, if he is less fortunate, many of his losses will be traceable to bad buying. In a previous chapter, we have noted how retail shops vary in size. The larger the shop, the larger will the stock of goods kept in it be, as a rule. And the larger the stock of goods, the greater is the danger of heavy losses if the buying has been done badly by the retailer; the greater is the chance of large profits if it has been done well. We must ask ourselves first, therefore, what we mean by "good buying."

In the first place, the retailer must buy only those goods or those qualities of goods which he knows that his customers do buy or are likely to buy if only they see them. He must therefore be constantly studying the needs and the tastes of his customers so that he will know just what to buy and just what not to buy. But he must not be led, by a single request for something he has not got, to the conclusion that he ought to stock that particular thing. At the same time he must be quick to detect the springing up of a real demand for a new thing; otherwise he may find himself fore-stalled by a competitor. Thus a retailer requires sound judgment to guide him in his buying.

Good buying rests on more than sound judgment of people's wants, however. We all know that retailers' prices vary from time to time. Eggs are

dearer in winter than in summer, and so is milk ; summer clothing is cheaper when the winter is drawing near ; and bread becomes dearer when the price of flour is increased. But though the baker has bought his flour or the grocer his eggs at the top price, each must be prepared to sell at lower prices if eggs and flour should fall heavily in price even a few days after he has bought his stock. On a big stock, therefore, a big loss might be made. Looking at the other side of the picture we see that if prices go up after the retailer has bought his stock at a lower figure, then a profit will be made. In buying his stock, therefore, the retailer must show not only good judgment but also foresight. He must judge what prices are likely to do and buy at the right moment.

Thirdly, if a retailer is to buy well, he must obviously know what he is buying and know it thoroughly. In the case of some things such as Nestlé's Milk, Pears' Soap, and the like, it is clear what is being bought. The same is not true, however, when we come to deal with silks and woollens, teas and coffees, clocks and watches, furniture, leather goods and so on. In buying a stock of any of these things, the retailer who does not know how to judge the quality of the thing he is buying is likely to have very heavy losses. If he cannot judge the qualities, how can he possibly protect himself from having goods thrust upon him which are not really suitable for his customers and which, probably, some of those customers will inform him are inferior goods ? If he does not know the qualities how can he safeguard himself against being charged first grade prices for third grade goods ? To be a sound judge of the quality of the things he is buying is half the battle for the retailer.

We may conclude, then, by saying that three of the main essentials for good buying on the part of the retailer are :

- (1) Sound judgment of the quality of the goods he is buying.
- (2) A thorough knowledge of his customers' requirements.
- (3) Knowing just when to buy, and, we might add, where to buy.

In addition to these essentials to good buying there is a characteristic of the retailer of which we must say a little. He must be willing to take risks, for that is one of his duties. In the present-day world, people like to get what they want with the least possible delay. In consequence, retailers have to keep in their shops things which they expect people will want. The retailer who gets the reputation of being able to provide everything anyone could ask for in his own particular class of stock, gets customers. By taking risks, retailers make both profits and losses; profits if they anticipate correctly; losses if their anticipations are wrong.

Let the reader think over all we have said of buying and apply our statements to such trades as the fresh fruit and the fresh fish trades, in which the goods bought and sold are perishable. He will realize then the importance of buying wisely and the risks such traders take.

B.—*The Sources of Supply.*

There are two main reservoirs from which a retailer may obtain a flow of goods into his shop. These are the warehouse of the wholesale dealer and the factory of the manufacturer. At the present time both these sources are tapped by retailers, and, often, the choice between the two is merely one of personal taste; one retailer may prefer to use the wholesaler's warehouse; another the maker's factory. It must be mentioned, however, that not all makers are prepared to have dealings directly with retailers: some prefer to deal with wholesalers.

A wholesaler belongs to the class often referred to

as "middlemen." He holds a large and varied stock of goods from which retailers may buy and, to his warehouse, retailers may go if they please to inspect the goods before deciding what to purchase. His stock includes goods of the same kind made by different manufacturers and this is a great boon to the retailer. Thus at a wholesale provision dealer's warehouse, the small shopkeeper may buy not only Rowntree's Cocoa, but also Fry's, Cadbury's, etc., not only biscuits made by Jacobs, but also those manufactured by Crawfords, Peek Freans, and Huntley and Palmers. If the retailer were to go to Fry's or Crawford's instead of to the wholesaler, he would only be able to obtain the cocoa or the biscuits respectively made by those two firms.

This is not the only advantage of going to the wholesaler in preference to the actual maker. A retailer visiting the factory of Jacobs, for example, would not hope to be able to buy much besides biscuits: certainly he would not expect to be able to buy bacon or eggs. But if he pays a visit to the wholesale provision dealer he may buy not only bacon and eggs, but also cheese and the biscuits he hopes his customers will ask for at the same time. The second advantage he derives, then, by dealing with a wholesaler is that he gets a variety of goods as well as a variety of makes.

Again, a wholesaler does not object to selling in small quantities or lots such as those which the smaller retailers, at any rate, require. Some manufacturers are just as ready and willing to sell in this way as the wholesaler; but others either refuse to sell in small lots or they let it be known that they do not crave for such orders. It must be borne in mind that it is natural for manufacturers generally to wish to sell in large lots. Their main task is making the goods and anything which causes them to give up valuable time and energy in doing other things cannot appeal to them. If the manufacturer deals

with the wholesalers and with them only, he gets rid of his products in large lots ; if he deals with retailers he must devote more time to packing for he has countless small orders to pack instead of a few larger ones. In other words he is drawn aside from his chief task—making the goods. Hence, retailers usually find that wholesalers are the people from whom they may buy their small lots. The larger retail firms, of course, will purchase in larger quantities, and for them the actual maker may be the better source of supply if they do not manufacture their own products.

A third advantage of buying from a wholesaler is that he is usually more free in granting credit to the retailer than the actual makers are. The manufacturers desire to get paid for their product almost as soon as it has been sold : the wholesaler is prepared to allow payment after a longer period. To the retailer who grants credit to his customers, it is a great advantage to be given credit when he makes his purchases.

C.—*Supply Channels.*

Whether the reservoir from which the retailer draws his stock of goods be the wholesaler's warehouse or the factory of the manufacturer, the flow of goods must pass through one or more of several channels. The choice is largely a matter for the retailer himself and, generally speaking, it may be said that he selects that one which is most convenient when all things are taken into consideration. We must now examine these channels and note, as we do so, the advantages and the disadvantages of each.

(1) Undoubtedly the most satisfactory method for the retailer in getting his supplies, is to pay a personal visit to the warehouse or the factory as the case may be. At the warehouse he will have the opportunity of seeing not merely the goods he knows he requires, but also goods which, he may realize, will appeal to

his customers but of which he had never thought. We often find ourselves wanting a thing the moment we see it, maybe because it is novel and appeals to us for that reason alone ; or, maybe because it is useful for some purpose for which we have hitherto failed to find anything suitable. In this respect we are very like a retailer in a wholesaler's showrooms. He may see there novel things which he is confident immediately that his customers will buy readily ; or he may see useful things which he feels will appeal to the people amongst whom he lives.

At the warehouse, too, the retailer will find it possible to get into touch with highly qualified and experienced salesmen who have a wide knowledge of the things they are displaying ; who are able to point out to him the things which are becoming popular and the things which are selling well in other places ; who can give him valuable advice on business in general and concerning the direction—up or down—in which prices are likely to move in the future. This advice is first-hand and therefore all the more valuable. Against these great advantages may be offset, in certain cases, some disadvantages. It may not be possible for some retailers to get away from their shop without closing it altogether for the day. Or the town in which the warehouse is situated may be an awkward one to reach from certain places. Or the journey might be an expensive one for the really small retailer to undertake. But, for retailers in general, these disadvantages would be slight compared with the advantages to be derived from a personal visit to the warehouse.

At a manufacturer's, the retailer would not be able to inspect the same variety of goods for reasons already pointed out. On the other hand, he would probably get the same opportunity of discussing matters concerning his business with experienced persons who know the state of business in all parts of the country and not merely in one small area.

The disadvantages are the same as in the case of buying by personal visit to the wholesaler.

(2) Commercial Travellers are employed by both manufacturers and wholesalers to link up their businesses with those of the retailers. Each traveller has a certain portion of the country mapped out for him and it is his duty to visit, as frequently as he possibly can, all retailers in his area who sell the type of goods which are made or stocked by his employers. As a general rule he receives a salary plus commission. That is to say his earnings actually vary with the number of orders he obtains for his firm. For commission is a certain percentage of the value of the orders obtained by him. Obviously the keen traveller will do everything he possibly can, therefore, to get orders since each additional order means a larger addition to his income. In this lies a disadvantage of buying through a commercial traveller, for he may say many nice things concerning the goods he is trying to sell merely for the purpose of getting an order and therefore increasing his commission. There are other disadvantages, too. The traveller may not call—may not be likely to call for some time—when the retailer is desirous of placing an order. Nor can the traveller, as a rule, give the retailer that expert advice and first hand knowledge which, as we have seen, he can get either at the warehouse or at the factory. There must be some advantages, however, or commercial travellers would scarcely be employed. What are these advantages?

In the first place, it is very convenient for the retailer to be able to stay at his shop and yet make his purchases satisfactorily. To be able to do so saves him both time and expense : there is no need for him to make the journey to the warehouse in a distant town. Secondly, it enables the retailer to devote the whole of his attention to his business and, as people often do not work as hard for others as they do for themselves, this is undoubtedly a good

thing for the retailer : he can see that his employees do their work conscientiously. We can imagine the great times the errand boy would have if his " boss " went away frequently. Thirdly, orders given to a Commercial Traveller are usually attended to very promptly. The retailer soon receives his goods—almost as speedily, in fact, as if he had actually ordered them himself at the warehouse.

(3) Occasions will arise, however, when it is quite impossible for the retailer to make the journey to the warehouse and when there is no likelihood of the traveller paying him a visit. Under such circumstances the retailer must make use of the catalogues or price lists issued by firms from time to time, select the goods, and give his order by letter, 'phone, or telegraph, according to the urgency of the order.

Price lists give particulars of the goods which the maker or the wholesaler has for sale and also the prices at which such goods will be sold until such time as it becomes necessary to revise the prices given. Before discussing the advantages or otherwise of the price list method of buying, we must warn the reader not to confuse a price list with a " List of Prices Current," which is an altogether different type of list. Lists of Prices Current are issued by firms at intervals, but, though they state prices, there is no definite offer of the goods at the prices stated. All Prices Current lists do is to indicate what the prices reigning in the market are, for the goods named, at the time the list is issued. All that a retailer can hope for from them, then, is a little knowledge of the way prices are moving. If he wants to buy definitely he must use a price list, provided it is up-to-date, of course. The difference between the two lists is briefly this : A price list gives definite, fixed prices ; a prices current list gives approximate prices only, i.e., the seller may or may not be willing to sell at just those prices.

Now let us return to the price list. Buying goods

by post, 'phone, or telegram, after consulting a catalogue is naturally a convenient way, especially in urgent cases. The retailer need not leave his shop ; little expense is incurred ; and the order will doubtless be attended to quickly. And, moreover, there are many classes of things which may be bought almost, if not quite as satisfactorily in this way as in any of the others. If the retailer's stock of Pears' soap runs low or runs out altogether quite unexpectedly, he need not see samples before buying : all tablets of Pears' soap of any single type are all alike. Similarly if his stock of Cream Crackers runs too low he knows that one tin of these biscuits made by Jacobs or Crawfords is just as good as any other tin made by the same firm. Ordering such goods by post is both convenient and satisfactory in such cases. But consider the case of the retailer of dress materials. If he runs out of material of a certain shade he may be able to get more of it by giving its number or its number and description. On the other hand if he wishes to buy something entirely new, the description "pale blue" in the catalogue conveys little to him actually, for even pale blues have varying degrees of paleness. For such things as this last one, then, it is a decided advantage to the retailer to see samples before ordering the goods, for he can see for himself then that his exact wants are satisfied.

TEST QUESTIONS :

- (1) "Anyone with good judgment can buy well." Do you agree ? Give reasons fully for your answer.
- (2) Of what use are middlemen ?
- (3) Name any three types of retail business, and state which method of buying would be best suited to each in your opinion. Give reasons wherever necessary.

CHAPTER IX

ON SELLING THE GOODS

WHEN the retailer has got a good assortment of goods in his shop, his next task is to sell them as quickly as possible. We have stated already that his buying of the goods must be good ; his sales also must be good. When the retailer finds his sales falling off, he begins to feel uneasy for he realizes that if he sells less, his profits will almost certainly be less, too. It is better for him to sell quickly at a small profit and sell more of the goods than have the stock lying unsold on his shelves. The more quickly he gets his money back by selling the goods, the sooner can he buy other goods. Hence we hear it said that a retailer's motto should be "Small profits, quick returns," and that he should "buy little but buy often." How can the retailer, then, sell his goods? What can he do to increase his sales?

The problem of selling is really two problems in one for the retailer: firstly, he must attract the customers and secondly, he must do his utmost to keep them once he has attracted them. In this chapter we shall try to solve these two problems.

The methods adopted nowadays to attract customers into retail shops are more varied than ever before. Methods used only by the largest firms at one time are now used freely by comparatively small concerns. New methods are constantly being introduced and just as constantly improved upon. And the method which is useful in one type of retail business may be impossible or useless in another. For example, we rarely see a jeweller's

shop of which the windows are scantily stocked ; and it is rare to find a poorly stocked window belonging to a fruiterer—except when the window is being dressed, of course. On the other hand we should never expect to find a milliner piling up in the window hats of every type as apples are piled up in the window of the fruiterer. The milliner aims at displaying the hats in such a way that passers-by can see the shape, the trimmings, the general appearance of them.

Again we do not hope to see ladies' dresses displayed in as close proximity to one another as are watches, rings, or clocks at a jeweller's. Yet the window which displays a couple of ladies' dresses or half a dozen hats gets the same amount of attention as the fruiterer's or the jeweller's which are both filled to their utmost capacity.

Window-display, then, is one method of attracting customers but the character of the display differs according to the type of the business. Let the reader look around him as he walks along the business thoroughfares of the towns or cities he lives in or visits and he will readily find instances other than those we have named.

Many retailers of to-day make great use of printed advertisements of varying types, some being inserted in the local daily or weekly papers ; others being in the form of slips thrust into one's hand as one passes the shop or pushed through one's letter-box despite the notice " No hawkers, no circulars " on the gate ; some being pasted on boards and sent round the streets with a man sandwiched between them ; and others still being pasted on hoardings along the streets so that all who pass by may see and read them. In all these cases, it is usual to aim at an advertisement which strikes the eye or impresses itself on the mind. The newspaper advertisement which requires a lot of reading is usually never read ; the one which takes up the same

amount of space but which merely says "Buy Bovril" or "Eat Mackintosh's" almost certainly strikes the eye. The same thing is true of the hoarding. How many of us would stop to read a long, closely-printed advertisement on the walls? Yet how many of us ever forget "Bovril prevents that sinking feeling" when once we have seen it?

Most of us are no doubt familiar with other methods of attracting customers to retail shops. We have possibly been invited to partake, free of charge, of a cup of "Ovaltine" or of Horlick's Malted Milk in some retail provision dealer's; or we may have been handed a free sample of some kind of soap on passing or visiting a chemist's shop. In such cases the advertisement is being done at the manufacturer's expense. But the object is clearly to attract people into those particular retail shops.

Lastly we may mention illuminated advertisements of the various types now so prevalent as a further mode of attraction. Each town will provide its own methods since some retailers are more alert and more original than others in this respect. We need only mention in conclusion, that even the pulling down of the "sun" blinds to provide shelter for the public during a heavy storm may attract people into the shop; or a direct invitation to "Step inside and look round till the rain stops" may be even more successful.

Our second question needs only a brief answer. Having attracted customers into his shop, the retaining of those customers and the effecting of sales depends entirely on the retailer and on his staff of assistants. Customers are of different types and require different methods of treatment. We have all, at some time or other, entered a retail shop with the fixed intention of buying a certain thing; we have all entered at other times with but a vague notion of the thing we wished to buy—a

hat, for example—and some of us may even have gone into a shop, say to buy a present, with no fixed intention other than that we were not going to spend more than a guinea on the present. Now if a customer is to be retained, he must leave the shop feeling that he has been given entire satisfaction ; he must be treated courteously ; he must be shown the type of goods most likely to appeal to him or, if his mind is already fixed on a special design, those goods which are of that design. Not only must he be shown the goods, he must have them displayed to the best advantage. The retailer who displays dress materials to a customer when his counter is littered with things which clash in colour, in all probability destroys his chances of making a sale.

To retain customers, therefore, a retailer must display not only skill in the art of gentle persuasion but also tact, consideration, civility, and patience.

TEST QUESTIONS :

- (1) Which do you consider the best method of finding buyers for goods ? Why ?
- (2) Name any three types of retail business and the method of advertising best suited to each, giving reasons fully.
- (3) In what ways would you expect the methods of the larger retail firms for finding buyers to differ from those of the smaller firms ?
- (4) " Every method of finding buyers has some drawbacks or limitations." What are the drawbacks of or the limitations to :
 - (a) Printed Advertisements, and
 - (b) Window Display ?
- (5) What characteristics go to make a good salesman ? Explain fully.

CHAPTER X

DELIVERING THE GOODS

WHEN a retailer sells goods, he is under no obligation to deliver them at the residence of the buyer. That he does so generally at the present time is due to the fact that customers have come to expect such delivery. One retailer, in order to give added satisfaction to his customers, offered to send the goods; another followed suit and so the practice grew until we reach a stage when a customer will even ask for the delivery at his or her home a mile or so from the shop of a pound of cooking apples costing tenpence! It must be borne in mind that delivering goods on a considerable scale necessarily involves expense to the retailer. That expense he must recover somehow if his profits are not to be seriously reduced. We must infer, therefore, that the costs of delivering the goods must be recovered ordinarily by increasing the price of the goods sold so as to allow for delivery costs. We may think it is very kind of the retailer to deliver the goods, but, as a rule, we pay for that delivery without realizing the fact always.

The question of delivery gives the retailer another problem to solve, though, in this case, an easy one. In deciding upon his method of delivery he will be influenced mainly by three things—the number of deliveries he has to make daily or weekly on the average, the type of goods which he has to deliver, and the distance of the buyer's home from his shop. The retailer who has normally few deliveries to make will not purchase a motor-van for the purpose; nor will the firm which possesses a delivery van

necessarily be prepared to send it miles out into the country to deliver one or even several small parcels.

We propose to deal in a general way with the methods of delivery which a retailer may employ and leave the reader to judge for himself whether a certain method would be used in a certain case, and whether it would be used by large or small retailers or by both.

When goods are to be delivered, the buyer's address is taken and, sooner or later, written on the address slip which is pasted to the parcel. If an immediate delivery has been requested, the seller may use a different coloured label or slip to draw attention to the fact. If no such request has been made, the goods sold will be dealt with in the ordinary way.

In the case of the smaller firms an errand boy or messenger may be employed to deliver parcels. Usually he presents a delivery book which the purchaser is requested to sign as proof that he has actually received the goods. Given a bicycle, a truck, or a hand-van, a messenger is able to deliver any parcel or parcels of moderate size. And for goods which require great care in delivery, such a method has obvious advantages if the messenger be reliable. Delivery by messenger is also very suitable where the distance to be covered is short. When distance increases and the parcels become bulkier, however, the usefulness of the messenger begins to diminish. Then the retailer must consider other methods.

If the goods do not exceed fifteen pounds in weight and the dimensions of the package do not exceed those laid down by the Post Office, the Parcel Post service may be used. But the disadvantages of this method are many. In the first place it is a method which can only be used for certain classes of goods. It is true that even eggs are often sent by parcel post but no one would care to guarantee that they will reach their destination

whole. Parcel post delivery, cheap, speedy, and convenient though it would be otherwise, must be ruled out of the question in many cases because it is not suitable for goods which are damaged easily.

Where the buyer lives out in the country, the local carrier may be employed. As we walk along our streets we may see a list of names or, maybe, but a single name on a card hanging in front of a retailer's shop. This indicates that the particular carriers named are required by the firm to call for goods. Each carrier covers a certain area only; he works between a certain town and certain outlying places in the country. He may only make the journey once or twice a week, or he may make it daily. But his service is reliable and cheap, cheap because, in most cases, he is picking up goods and delivering goods all along the route he traverses and, therefore, until he approaches his home his cart or van is rarely empty. If the seller employed his own van to go out to the country purchaser, the van would probably have to return quite empty.

Goods which have to be sent out of the seller's town to the buyer may be despatched by rail. Here the question arises: "Shall delivery be by passenger train or by goods train?" The decision depends upon the type of goods which have to be sent. If the town housewife has been out in the country to buy fruit for her annual jam-making and has asked for the fruit bought to be delivered, the fruit will probably be sent by passenger train, for fruit is a perishable commodity. But if the country farmer has been into town to buy ploughs for his farm, he will elect to have them sent by goods train—or the seller will do so. Ploughs may go rusty but they are not perishable as strawberries are. Moreover, the cost of delivering goods by passenger train is almost twice that of delivering them by goods train. Our conclusion on this method, therefore, is that if speedy delivery is the chief

consideration, the passenger train will be used ; if speed is no consideration but expense is, then the goods train will be selected.

The retailer, we must note, may use the railway without actually dealing with the railway management. Many delivery companies exist which will take the goods and, by the aid of the railway, see them to the required destination. But their charges for the small parcels of the retailers are less than those of the railways. This is so because they take from the railways a considerable amount of the work of classifying parcels according to their destination. Consequently the railways are prepared to enter into agreement with these delivery companies whereby the delivery companies obtain more favourable terms for the big parcels they make up of the smaller ones. Hence, the delivery companies can afford to charge a little less than the railways.

For deliveries in and around the town in which their shops are situated, the larger retail firms usually employ their own vans. It pays them to do so because the number of the deliveries they are called upon to make is sufficiently large. And the busier the business may be, the more will it pay the firm to deliver by its own van wherever possible. In fact, we may say that the fuller the retailer can keep his vans, the more the work he can find for them to do, the better will his delivery service pay.

In conclusion it may be pointed out that the above methods of delivering goods are available for all business men and not for retailers only. But the reader will realize that a wholesaler will make far less use of Parcel Post and Errand Boy than a retailer will. Consequently in just the same way that the student must judge for himself whether the small retailer will use only some or all of the methods we have noted, so, when he comes to matters concerning wholesalers' deliveries, must he do likewise.

TEST QUESTIONS :

(1) What are the chief considerations in deciding upon the method of delivery to be used in any case ?

(2) How would you decide to deliver the following goods ?

(a) A lady's hat to a buyer in your own town ;

(b) A lawn mower to a buyer in the country around your town ;

(c) A dozen baskets of strawberries to a buyer in a distant town ;

(d) A parcel of books weighing 16 lbs. to a buyer in a distant town ;

(e) A wire mattress to a buyer in the suburbs.

Give your reasons fully in each case.

(3) What are the advantages and the disadvantages to the Retailer of :

(a) Local Carriers, and

(b) Parcel Post.

Part III The Wholesale Trade

CHAPTER XI

ON THE WHOLESALER AND HIS WORK

THE wholesale trader may be described as one who buys in large quantities from the makers or producers and who sells in smaller quantities to the retailers. The reader must not infer, however, that wholesalers limit themselves to that work and to that alone. We need only look around us in our towns and we shall find instances of traders who describe themselves as wholesale and retail dealers in tobacco, or fruit, or vegetables. But, though the traders in question are prepared to sell their goods to the public as well as to retailers, they do buy in large quantities from the makers and sell in smaller quantities to retailers. The only difference is that they will sell in small quantities to anyone whereas most wholesalers will only deal with retail traders.

In an earlier chapter we have emphasized the importance of buying well in the retailer's case. What was said there applies with even greater force in the case of the wholesaler. Attention has also been drawn to the importance of attracting and retaining customers in the retail trade. In the wholesale trade that, too, is equally important. Consequently the wholesaler is invariably one who has made buying and selling a real art: he is an expert in both. And since he has made a deep study of these things he is well fitted for another side of his work, viz.: that of advising the retailers who buy from him. A wholesaler is in a far better

position for obtaining an idea of the state of trade in general at first hand, for his dealings cover the entire country whereas those of the majority of retailers are confined to a small area. Retail concerns such as the big Dairy Companies or the big provision dealers such as Liptons are, of course, not to be compared in this respect with the local retailers small or large : their knowledge of trade in general is as great as that of a wholesaler. But the smaller and more local concerns in general are only too pleased to have the wholesaler's advice when they visit his warehouse. The wholesaler can draw their attention to goods of a new type which have sold well in other parts of the country ; he can inform them if he sees signs of a change of fashion in any particular direction ; and he can let them know when he thinks that prices are likely to change.

A further branch of this work has been referred to already—that of keeping a varied stock of goods and of keeping on hand stocks of the same type of goods made by different manufacturers. This side of the wholesaler's work is a great boon to the retailer. Wholesale warehouses are usually placed in some spot which is easily reached by customers, and so retailers visiting the warehouses find much less of their time taken up in travelling. It is easy to imagine the difference the retailer would find if he had to visit the actual makers of the varied types of goods he requires. He would spend most of his time in trains, very little of it in his own shop.

One of the greatest boons conferred by the wholesaler on the retailer, however, is due to the granting of credit. The retailer buys goods but is given say thirty or sixty days in which to pay for them, and in that time it is reasonable to suppose that he will be able to sell at least part of the goods he has bought on credit from the wholesaler. Before payment is due, in other words, he can turn the goods into cash. In what way does this help

him? Let us put ourselves in his position and we shall probably realize the more clearly. If we had to pay at once for everything we bought for our shop, we should almost certainly confine our purchases to things which we know would be almost sure to sell. We could not afford to risk too much, for, if we bought one hundred pounds' worth of something which did not sell quickly, so much of our money would be locked up in stock, that is to say it would be represented by something lying on our shelves or counters unsold. Now retailers do not like to have their money locked up in this way because it restricts their business. We could not use our £100 for making further purchases. But if the wholesaler will sell us goods and give us a month or two months in which to repay him for those things we can go on with our business even though £100 of our money be in the form of unsold jars of jam on our shelves. Credit then enables the retailer to carry more stock than he would otherwise be able to do—not necessarily more of the same kind but, rather, more of all kinds. It, therefore, helps to encourage business and it gives the retailer a chance to sell his stock before he needs to pay for it. We may conclude our examination of this side of the wholesaler's work by pointing out once more that, as a general rule, the wholesaler is more liberal to the retailer in the matter of credit than is the manufacturer.

So far we have been concerned solely with the work of the wholesaler in relation to the retailer. Now we must glance at the work he does which is of value to the manufacturer.

One of the most valuable parts of the wholesaler's work from the maker's point of view is that concerned with the selling of the goods. By the aid of commercial travellers, catalogues and other means, wholesalers are constantly doing their utmost to attract customers—particularly new ones. Each

time new orders are obtained, no matter by what means, some maker derives an advantage, for are not more of his products being sold? By every possible means in their power wholesalers endeavour to make the goods they sell more popular. They even assist the retailer in advertising the goods in some cases. We may say then that wholesalers do their best to enlarge the existing market for their goods. This alone does not satisfy the ambitious and go-ahead dealer, however. There may be certain parts of the country from which no orders have ever reached the firm. It may be known that, owing to some industrial development, new towns or villages are springing up in parts hitherto practically uninhabited. To such places the wholesaler's travellers will give their attention; in such places they will try to obtain entirely new orders. Thus the wholesaler not only enlarges the existing market for his goods but also does his very utmost to find new markets. In doing both he is doing valuable work for some manufacturer or manufacturers.

In doing the work just outlined, the wholesaler is also gathering information which he passes on to the manufacturers and which is of the highest value to them. We have seen that the wholesaler is able to inform the retailer when he has observed any changes in the demand or, rather, in the nature of the demand for certain goods. We have also stated that retailers may note changes in their own particular areas and may let the wholesaler know of them. In the same way manufacturers may be given useful information by the buyers of their products, information which may enable them to have ready at the right time the type of goods for which a demand has been observed to be springing up. "To be forewarned is to be forearmed" so people say: the statement is certainly true from a maker's point of view. To be informed

that a demand is arising for something he makes is just as valuable to a maker as is the information that people are ceasing to buy that particular commodity. In the one case he can get his machinery to work on the article in question ; in the other case he can ease off in his production of it. Another of the functions of the wholesaler then, is to study his consumers' needs and tastes and pass on the results of his studies to the manufacturers.

To continue our glance at the work of the wholesaler we will refer the reader to the statement at the beginning of this chapter that wholesalers buy in large and sell in smaller quantities. In that statement we may find a further service rendered to the maker by the wholesaler. If we were to do away with the whole class of wholesalers, every manufacturer would be obliged to arrange for selling his products to retailers. This means that, instead of being called upon to handle big orders from a few firms, he would be asked to handle countless small orders from innumerable small firms. The latter task, it is clear, would be a much bigger one than the former, for though the same quantity of goods might be handled, the number of parcels or lots would be increased beyond recognition. When we are unfortunate enough to have an accident to our bicycle, we find it much more convenient—and much less annoying—to be able to wheel it home than to have to carry it in some dozen or more parts. The manufacturer's position is much the same. He would usually rather sell a large quantity to one wholesaler with a hundred retail customers than have to deal with the hundred and sell his product in so many small lots of uneven size. The reason is not difficult to find. Most makers consider that their duty is to produce the goods. No one will deny that. They further consider that if they begin to deal in all sorts of small and odd lots, they commence to give valuable time

and energy to duties other than manufacturing. By getting rid of his stock in a few large lots, the maker eases the selling side of his work and therefore leaves himself more time for the manufacturing. And that, after all, is his work. We come to the conclusion, therefore, that the wholesaler renders a further service to the manufacturer by relieving him of the worry of dealing with countless small traders and consequently leaving him free to devote his whole energy to organizing his factory for producing goods, not small parcels.

Even here the services rendered by the wholesaler are not exhausted. We, the general public, derive benefits from the work he does. In the first place we have learned that wholesalers hold a more varied stock than manufacturers do. From this stock the retailers, with whom we deal, select their stocks. The consequence is that we undoubtedly get a wider choice than we should do were retailers to deal direct with manufacturers. In the second place, wholesalers grant credit to retailers and, by doing so, enable the latter to keep a larger stock than they would be able to do if they had to pay cash down for all the goods they buy. This leads us to a third service rendered by wholesalers to the general public. The retailer, being allowed credit by the wholesaler, may often see his way to allow credit himself to his customers. Whether this is actually a real service to the general public may be disputed. Some people might say that it encourages the customer to buy more than he would do otherwise and so encourages him to run into debt. The reader must judge for himself whether this granting of credit is always an evil or always a boon ; or whether it is sometimes the one, sometimes the other. A fourth way in which the general public is benefited by the wholesaler is through the speedy supplying of retailers' wants. He takes his stocks from the manufacturer and

holds them in central positions for distribution. Consequently the retailer usually obtains any goods of which he may run short with little or no delay. This is so because, as we have seen, the wholesaler's main task is distributing goods; the manufacturer's main duty is the making of the goods.

TEST QUESTIONS:

- (1) Which part of a Wholesaler's work do you consider of most value to you? Why?
- (2) In what way would the abolition of Wholesalers affect (a) You, and (b) Retailers?
- (3) In what ways does the work of a Wholesaler resemble that of a Retailer? In what respects does it differ?

CHAPTER XII

ON THE WHOLESALE WAREHOUSE

IF we consider, for a moment, the work which a wholesaler does, we shall be able to form some idea of the way in which his warehouse is likely to be organized. Buying and selling are obvious duties and so are packing and forwarding the goods sold. Then, again, since credit is usually granted by the wholesaler, it will be necessary to have some arrangements for dealing with the granting of credit. We do not willingly lend £1 Bank Notes to the first person who asks us to do so—nor even to the second person ; nor do we go on lending one Bank Note after another without limit to the same person whether he be friend or stranger. Wholesalers are very human and it cannot be expected that they will act differently from the rest of us in such a matter as lending or granting credit : hence the arrangements made for dealing with credit matters. Finally, as the wholesaler stocks not one class of goods but many, it will follow that he will have a special department for each class. The man who knows all there is to know about silks is not necessarily an expert in cotton goods.

However, as in most matters concerning business firms, what is true of one wholesale warehouse is not always true of another. The account which follows, of the organization of such a warehouse and of the work which each department does must be considered merely as one possible way, not as the only one in existence. Probably no two wholesalers are alike in any way. One may be a better organizer than another, or he may lay more stress

on the importance of one particular side of his business than another does. Differences such as these are sufficient to account for differences in organization in the warehouses. We will now assume the warehouse to be a textile warehouse and give a general description of its organization.

As there are different kinds of textile goods it may be that there will be a separate department for each. Thus we may expect to find sections devoted to textile materials for wearing apparel, to lace goods, to table, bed and other linen goods, to hosiery, etc. No matter how many departments there may be, each will be in charge of a Buyer who will be responsible to the Head of the firm for the control of his own particular section. It is to the Buyer that the firm looks for the satisfactory running of the Department. It is he who will be expected to show a profit on his section's work or to be able to give a satisfactory explanation of any loss. He cannot hide his losses amongst the gains which other departments may have made because each section is obliged to keep a careful record of all receipts and all expenditure. This is so because the proprietors desire to see at once when a particular part of their business is beginning to lose ground or to make good progress.

Much of what has been written elsewhere may be applied to the Buyer. He must be a shrewd buyer in every way ; he must know to which makers it is advisable to go to get the best quality of goods ; he must be able to judge the quality of the goods in which he deals, rapidly and well ; he must know when it is the right time to buy. And at the same time he must have an eye on the way things are moving on the selling side. He may be buying excellently in so far as quality and price are concerned but that is of no value to his firm if the things he is buying are lying in the warehouse unsold. To ensure wise buying, therefore, must be one of his

aims, and this he can only do by keeping himself informed of the progress of sales and by keeping in close touch with the firm's commercial travellers, from whom he may frequently get information which warns him to expect either a falling off or an increase in the demand. Each Buyer, of course, is not given an entirely free hand. His actions must be controlled, otherwise he might spend far more than he ought to do on his department and bring heavy losses on the firm. Consequently the heads of the firm will limit in one way or another the amount to be spent on stock for any department but they will always be prepared to allow further purchases of stock if the Buyer can justify them.

If the warehouse is large, there will probably be a department for dealing with the receiving of goods and the keeping of stock. The work of this department will be to check all goods received from the makers and also to keep a record not only of those goods but also of those which purchasers may return—because they are damaged or not suitable. In addition the department will have to check the goods received from the makers to see that they are actually taking in what the Buyers have ordered. As a general rule the Receiving Department will be found either in the basement of the warehouse or on the top floor. Basements are usually rather dark and, as customers do not like to examine goods in artificial light, are not well suited to be show-rooms. On the other hand, top-storeys are usually rather high up and we must remember that some people do not like lifts. In the same part of the warehouse will usually be found the Packing and the Forwarding Department. It may be that all three—Receiving, Packing and Forwarding Departments—will be under the control of one man. That again depends on the size of the business. The work of the Packing and the Forwarding Departments is what the names imply. When goods have been

sold they are sent into the basement (or elsewhere) to be packed and sent to the customers who have bought them. The head of the departments must be a man with a knowledge of the best methods of packing goods and of the cheapest ways of sending them to the customers whilst at the same time giving good delivery. One might almost say that "Safety with Economy" is the watchword of the head of these sections. For he must take care that goods are not carelessly packed and he must avoid too expensive methods either of packing or of sending the goods.

The last department it is our intention to mention is the department which keeps the firm's accounts and deals with the granting of credit, and the firm's correspondence. Each part of the work is of great importance but probably the granting of credit is the most important. If we lend money to a friend, we do so because we have faith in him : we feel that he will repay us. Similarly when a wholesaler grants credit to a retailer he does so because he feels that he can rely upon him to pay for the goods at the end of the time given. But wholesalers must be cautious sooner or later : there is a limit to the amount they are prepared to allow the retailer to have on credit. The Credit Department must see that no customer is allowed to have goods on credit in excess of the amount sanctioned by the responsible head. If Johnson Bros. have been accepted by a wholesaler as a retail firm to which it is safe to send £100 in goods on credit, the Credit Department must not allow more without the permission of the heads of the firm. This department therefore has to decide whether orders received by the firm are to be executed ; another part of its work is to see that orders received are sent into the Sales Department to be executed ; and yet another duty is to deal with correspondence and accounts—the latter including not only the keeping of the firm's books

but also the collection of money owing to the firm.

In conclusion it may be added that the names given to the various departments in this chapter are not used in all firms any more than the departments into which the warehouse has been divided are the departments into which all wholesale warehouses are divided.

TEST QUESTIONS :

(1) Contrast and compare the organization of a typical Wholesale Warehouse with that of a Retail Shop of moderate size.

(2) "The Buyer in a Wholesale Warehouse occupies a most responsible position." Explain this statement.

(3) In what respects does a Wholesale Warehouse resemble a Departmental Store ? In what ways do the two differ ?

CHAPTER XIII

ON WHOLESALE BUYING

BUYING for the wholesale warehouse is just as important as buying for the retail shop, and what is necessary in the latter case is even more necessary in the former. Let the reader refer back to what has been said on the Buyer and his work in the previous chapter and on Retail buying in the earlier part of this book. There he will find that those responsible for buying in both cases require sound judgment of what, when, and where to buy and of the quality of the things bought; together with a willingness to take reasonable risks.

Like the retailer, the wholesaler may buy goods for his warehouse from two main sources—the actual maker on the one hand, another wholesaler or merchant on the other. But his buying is a much more complicated matter: it may take many forms. The reason for this is that there are, broadly, three distinct classes of goods to be bought: raw materials such as wool, flax, cotton, silk, iron ore and so on, intended for manufacturing purposes; the manufactured goods; and our foodstuffs such as wheat, rice, tea, coffee, fruit, fish, etc. Of these—particularly in the cases of foodstuffs and raw materials—much comes from abroad. Consequently such things are usually handled on this side by an importing merchant who specializes in some one or more commodities. Thus we may get a grain importer, a cotton importer, or an importer of teas, coffees, or spices. These importers are the people from whom the wholesalers must buy commodities of the raw material and foodstuff classes, and the purchases must be made either at sale rooms where the commodity is put up for sale in lots and goes

to the buyer who offers most for it ; or in buildings known as " Exchanges " where dealers meet for the purpose of buying and selling. Wool, for example, is sold by auction at sale-rooms ; cotton on the Cotton Exchange. We may add to these sale rooms and exchanges, places of which the names are familiar to many of us : Covent Garden, the great market for fruit, vegetables, and flowers ; Billingsgate, London's great fish market ; and the Smithfield market for dead meat. To these markets the goods named are brought for sale in bulk, that is to say, the whole of the commodity for sale is to be seen there.

But manufactured goods in general are dealt with in an altogether different manner. Here there is no question of auctions or of taking the stock to some Market Hall and exhibiting the whole of it. If we remember that there is no hard and fast rule concerning the method of buying such goods, we may say that they are usually bought wholesale by private arrangement with the maker. In other words, the wholesaler who buys in huge quantities will be able to buy cheaper as a rule than the one who buys in smaller quantities (though still a wholesaler)—because he takes more, not because he offers more as at an auction. The motto, then, in buying manufactured goods is usually : " Inspect the goods, then make your offer."

We may now look at the question of buying from another point of view. On the strength of what does the wholesaler make his purchases ? What does he see before he agrees to buy ? Again, the answer depends upon what he is buying.

Firstly, as we have just mentioned, at the markets such as Covent Garden or Billingsgate, he may see the whole of the commodity for sale. In other words the goods come on to the market in bulk. But this takes up an enormous amount of space and the less the space taken up by the goods the

greater the number of sellers who can deal there. Consequently, wherever possible, other methods of buying and selling have been adopted.

Secondly, where all the commodity is the same in quality or where it can be divided conveniently into different classes, samples are a good means of enabling dealings to take place without bringing all the commodity on the market or into the salesroom. A sample, being taken from the bulk, is always taken to be a true guide as to the quality of the whole, and if a wholesaler (or a retailer), who has bought say cloth from samples, finds that the whole is not up to the quality of the sample, he can refuse to accept it. Much of what is bought through Commercial Travellers is bought by sample. As far as the wholesaler is concerned, when he buys in this way, he gets an opportunity of going to the warehouse of the importer or to the docks to inspect the bulk.

The third method only arises when it is possible to grade the commodity: that is to say when the thing to be sold is such that it can be easily put into grades according to quality and when these grades vary little from year to year. Coffee, cotton, wheat, and sugar are good examples of commodities sold by "type" or "grade." In such instances, though samples may be displayed in some cases, they are scarcely necessary. Each grade has its own particular name to distinguish it and the giving of this name is enough in ordering—all dealers knowing perfectly well what the name implies. Thus an order for "Northern Manitoba, No. 1," signifies a desire for the finest quality of Canadian wheat. The order is given on the strength of a "standard" sample taken, usually, from the previous year's crop, and if the wheat, when delivered, does not come up to that standard, an allowance is made to the buyer.

Fourthly, certain things, quite familiar to all

of us, have obtained a reputation for quality or have become known as goods which keep up their quality year in and year out. Bovril, Pears' Soap, Lux, etc., are all things which one can buy freely without seeing either the bulk or a sample ; and there is no question of selling by grade. All these things sell by their "Trade Mark" or by description, and wholesalers and retailers have no difficulty whatsoever in buying such goods.

We conclude then that goods may be bought in the following ways :

- (1) After inspecting the bulk.
- (2) By sample.
- (3) By type or grade.
- (4) By Trade Mark or description.

Now we may give our attention to the payment for goods bought wholesale or, rather, to the prices which may be quoted.

(a) The buyer may find that the seller's price is for the goods where they stand at the time that price is quoted. That is to say no charges of any type are included other than the bare cost of the goods. The buyer must pay all the cost of carriage and any charges for loading, no matter of what kind. This price is known as "Loco Price," the word "Loco" being Latin for "in or at the place." Hence it may be said that Loco price means the price of the goods at the spot in which they happen to be when the seller quotes that price.

(b) But the seller may quote a price which will cover all expenses as far as the station in his town (not the buyer's town) but nothing more. Any charges for loading into trucks at the station the buyer must pay. This price is known as "At Station" price.

(c) If the seller goes a step further and includes in his price the expenses up to the time the goods are in the trucks on the railway, we say he quotes a "Free on rail" price—often expressed f.o.r.

(d) Lastly, the seller may mention a price which includes all expenses right to the buyer's place of business. This price is the familiar "Carriage free" or "Carriage paid."

The reader may say: "But supposing the goods are bought in London by a wholesaler whose warehouse is in Newcastle and that the goods are to go by sea; what then?" In such cases different prices may be quoted. For example, instead of "At Station," we get a price which includes all expenses as far as the side of the ship, whether she be lying alongside a quay or in midstream. This we term "Free alongside ship" price (f.a.s.). Again, instead of "Free on rail," we get "Free on board" (f.o.b.). And, finally, two other prices may be quoted by the seller: c.f. and c.i.f. In the former case (c.f.) all charges for carriage by sea (or freight) are included but the goods are not insured. Hence c.f. means "cost and freight." In the case of c.i.f. quotations, the price quoted includes the cost of the goods, of the insurance of the goods, and of the carriage of them. c.i.f. then means cost, insurance and freight.

In conclusion of this examination of prices quoted, we may point out that what has been said need not be limited to the buying done by wholesalers. Clearly such prices as "Carriage free," "At station," "Free on rail," etc., might also apply to the prices quoted by a wholesaler to a retailer.

TEST QUESTIONS:

- (1) Wholesale buying is usually much more difficult than Retail. Why is this?
- (2) What advantages are to be derived from (a) sale by sample, and (b) sale by trade-mark?
- (3) How is it that so few commodities can be sold by grade?
- (4) In what ways does Wholesale buying of fish differ from that of manufactured goods?
- (5) Distinguish carefully between "free on rail" and "carriage free" price quotations.

CHAPTER XIV

ON WHOLESALE SELLING

WITH the goods in his warehouse, the wholesaler turns to the selling of them. He wishes to sell at a profit ; to sell the greatest amount possible on the least expense possible ; and to get as many customers as he can. How is he to achieve these three aims ? To answer this question the reader should refer again to the general statements on selling made in chapter nine, and take them in conjunction with what follows.

Obviously the wholesaler must get people interested in the goods he has for sale : he must create that interest by advertising in the various newspapers or trade journals, on the hoardings or by printed circulars ; and by catalogues or letters to the retail dealers selling his particular type of goods. Further, to get orders, he must send his staff of commercial travellers all over the country. These men, by displaying samples to the retailers, may create more interest in them for those goods than a hundred letters would. It is for newspaper and other advertisements of a similar kind to rouse the interest of the general public in the goods ; it is for the commercial traveller to rouse the retailer's interest sufficiently to get orders. Consequently the wholesaler must always keep his travelling salesmen fully informed of any new facts concerning the goods for which they are trying to get orders. And, on the other hand, he should see that his travellers make reports to him of such a kind that he can see whether they are covering their area thoroughly and well. Especially is this the case in

regard to areas in which the wholesaler gets many orders. For then the traveller may be tempted merely to call on the retailers where he knows an order is assured, and to ignore those from whom he has never had an order. For this reason some wholesale firms make a practice of changing their salesmen round at intervals, and so make it less likely that only existing customers will be visited.

Another method of raising interest is to arrange at the retailers' shops—with the retailers' permission, of course—special window displays, the aim of which is to attract the public. Such displays we may frequently see both at grocers' and at chemists' shops. Of a similar type is the giving away of small samples by agents of the wholesaler (or the manufacturer) to those who visit the retailer whose shop is being used for the purpose. We have mentioned instances of this in dealing with the retailer.

Wholesalers, again, may arrange special displays of their wares either at their own warehouses or at some building in the various large towns in the country. To these displays they invite the retailers to attend by circular letter, hoping that once the retailers see the goods displayed orders will follow. Or, if their goods are of the right type—for example, anything in the shape of new mechanical contrivances for cooking and the like—the wholesalers may occasionally arrange special demonstrations for retailers. At these the latter will actually see the new contrivance at work and will get the expert talk on it, which will be so helpful to them if they should purchase a quantity for sale at their shops.

However, it has been pointed out that the wholesaler aims, not merely at getting the largest possible number of customers, but also at doing so with as little expense as possible. Therefore he must not use any methods of advertising or of getting orders,

which are not profitable. In other words, he must not spend thousands of pounds on advertisements which bring him little in return. But, we may ask, how is he to know which advertisement does pay him and which does not? Obviously he must have some means of checking the results.

Now let us suppose that A.B. and Co. have their wholesale warehouse at "116-132 Market Street, Dunham." They advertise in a number of papers and desire to know the results. First of all, they may give any one of their numbers in each advertisement. Thus the orders would be sent to "116" if we read say the *Daily Express*; to "118" if we read the *Daily Mail*; to "120" if the *Daily Herald* were our morning paper, and so on. If the various numbers which the premises occupy do not provide enough scope, the firm may use Department numbers or letters. Then our orders would be sent to "A.B. and Co., Dept. A," or "Dept. X," or "Dept. 60." Here is endless scope for all the advertisements the firm could possibly desire to use.

Having adopted such a system, it is not a difficult matter to keep a record of the orders received through the various sources and any advertisement which is not bringing sufficient orders may be discarded after a fair trial.

Advertisements of other types do not, of course, lend themselves to such a system of checking as the one just described. For example, how is one to judge how much in the shape of orders is obtained from an advertisement on a hoarding or on a tram-car?

TEST QUESTIONS

(1) In what respects do the methods of finding buyers in the Wholesale trade differ from those usually adopted by Retailers? How do you account for the differences?

(2) Which do you consider the best method of advertising for a Wholesaler? Give reasons.

(3) Assuming yourself to be a Wholesaler, how would you set about finding buyers for the following :

- (a) A new typewriter ;
- (b) A new brand of cocoa ;
- (c) Tinned fruits ;
- (d) Silk goods ;
- (e) Leather goods.

Explain why you select the particular methods you name.

CHAPTER XV

ON THE COURSE OF AN ORDER

WE now turn to the more practical side of our subject and endeavour to trace the course of an order given by a retailer to a wholesale firm and to notice what documents will pass between the two.

On the 1st Sept., 19..., our retailer, B. Quick, finds that his stock of several commodities is running very low. He does not expect the traveller to call early enough to suit him so he writes to the wholesale firm, O. Gee & Sons, Ltd., as follows :

10 BRIGHTON PLACE,
BOGNOR,
1st September, 19...

DEAR SIRs,

Please forward the undermentioned goods at your earliest convenience, per British Railways to Bognor Station, carriage paid :

Stock No. 2834—50 yards Flannel, at 17s. 6d. per yard ;

Stock No. 146—80 yards Lawn, at 5s. per yard ;

Stock No. 1425—40 yards Crepe de Chine Ivory, at 22s. 6d. per yard.

Yours faithfully,

B. QUICK.

On the following morning this letter is opened in the office of O. Gee & Sons. It is observed that the goods ordered concern several different departments so copies are made. If this were not done the original letter would have to be sent from one department to another ; it might be lost and no copy would be in existence ; or it might even become so crumpled or dirty with constant handling that Quick's order could not be read. To avoid

these evils, therefore, sufficient copies are made to go to all concerned. But before the copies are actually sent into the Sales Department to be dealt with, the order must be submitted to the Credit Manager. He will decide what credit, if any, is to be given to Quick. If Quick is well within the credit limit in his case, the credit manager will initial the order to show his approval; if his credit limit is being exceeded, a "prompt payment" may be ordered; whilst if Quick has always been recognized as a retailer not to be given credit, C.O.D. may be written across his order, that is to say, "Cash on Delivery." This means that the goods will have to be paid for before they will be handed over to Quick.

Assuming that Quick's order is passed by the Credit Manager and that the usual credit is to be allowed, the copies of the order are sent into the various sections or departments concerned. Thus one copy will be sent to the Woollens Department, another to the Cottons, and a third to the Silks Department. Each of these departments will get the goods ordered by Quick and send them into the Packing and Forwarding Department. To this department also a copy of the order has been sent, so that when the goods are being prepared for despatch to Quick, they may be checked. It may be pointed out that in some warehouses each department concerned would receive only that part of the order which concerned it. For example, the Woollens Department in the case of Quick's order would merely receive instructions to supply the 50 yards of Flannel. But the Packing Department in such warehouses will get the complete copy so that it may check the goods as they come in from the separate departments. No matter what method may be used, if the goods are found to be correct, they will be packed up in the most suitable manner and despatched to Quick, in

accordance with his instructions, by Southern Region, British Railways to Bognor Station. Those instructions will, of course, have been given to the Packing and Forwarding Dept.

On the other hand, if the goods are not found to be correct—if some have been omitted or if something has been substituted for a thing ordered by Quick—the Packing Department must make a note of the “Omits” or the “Subs” as the case may be, for the information of the Office. On receipt of this note, the Office, when sending out the invoice to Quick, will be able to make the explanation to the customer. Of course if an “Omit” is due to a slip in the Cottons or the Silks department and not to the fact that the article is out of stock at the time, it may be rectified there and then by the department which has made the omission sending what it has omitted in to the Packing Department.

Having despatched the goods, the firm will send an invoice to Quick. Invoices differ in form but we should expect Quick to receive something like the following :

READING,
2nd September, 19...

B. QUICK, Esq.

Bought of O. GEE & SONS, LTD.
Terms : 2½% cash within one month.

| Stock No. | £ | s. | d. |
|---|-----|----|----|
| 2834—50 yards Flannel, at 17s. 6d. per yard .. | 14 | 17 | 6 |
| 146—80 yards Lawn (Pale Blue), at 5s. per yard | 20 | 0 | 0 |
| 1425—40 yards Ivory Crepe de Chine, at 22s. 6d. per yard | 45 | 0 | 0 |
| | 79 | 17 | 6 |
| Trade Discount 20% .. | 15 | 19 | 6 |
| | £63 | 18 | 0 |

From this example the student will gather that an invoice is a detailed account of the goods bought. Each thing ordered is described ; the price per unit is given ; the quantity ordered (or forwarded) is stated and the total costs of each kind of goods and of the whole of the goods are made clear. But in addition to these details concerning the goods themselves there are others. In the above example note the “ $2\frac{1}{2}\%$ for cash within one month.” This is a notice to Quick that if he pays for the goods within one month, he may deduct $2\frac{1}{2}\%$ from the total amount shown, that is he may pay £62 6s. od. instead of £63 18s. od. This is termed a “ Cash Discount.” What is the object of O. Gee & Sons in doing this ? It is merely to encourage Quick to pay for the goods before the month elapses ; it is to enable O. Gee & Sons to get the money owing to them quickly so that they may use it for further trading. This being so, we may say that a Cash Discount is an allowance or rebate, made by a seller to a buyer, to encourage speedy settlement of accounts.

We must be very careful not to confuse this with the “ Trade discount— 20% ” which we observe in our specimen invoice. If the Trade Discount is deducted from the total before the invoice is sent, it cannot be a discount to encourage speedy payment. Why is this deducted then ? We have seen that catalogues are issued by firms to their customers. Some catalogues are of great size and involve much trouble and expense in preparation and publication. But the prices of the goods described in the catalogue may change the very day after they have been printed : in a week’s time, they may have dropped or risen 25% . In catalogues which describe different types of goods, as a wholesaler’s catalogue would, matters are even worse, for one type may fall in price whilst another may rise. Silks may become dear and cottons cheap because people are turning

from cottons to buy silks. Trade discount makes it possible for wholesalers to keep on using the same catalogues even in spite of such changes in price. If silks become dearer, the catalogue price remains the same but the trade discount is diminished; if silk goods become cheaper, the trade discount may be increased. In this way the buyer can be made to pay more or less as the case may require. An example will enable us to see this more clearly.

| | s. | d. | | s. | d. |
|----------------------------------|-------|----|-------------------------------------|-------|----|
| Catalogue price .. | 30 | 0 | Catalogue price .. | 30 | 0 |
| Old Trade Discount, 20% | 6 | 0 | Revised Trade Dis- count, 15% .. | 4 | 6 |
| | <hr/> | | | <hr/> | |
| Actual Sale Price | 24 | 0 | Actual Sale Price | 25 | 6 |
| | <hr/> | | | <hr/> | |

From this we gather that if the price of the article rises from 24s. to 25s. 6d. whilst the catalogue price remains at 30s., all that is necessary is to drop the Trade Discount from 20% to 15%. By doing so the rise of 1s. 6d. in the price is obtained and the catalogue can still be used.

Now let us return to O. Gee & Sons and see what their next step will be after making out the invoice and sending it to Mr. Quick. All clerks are not careful, and there are, in any case, few who have never made a slip. Suppose, then, that a slip has been made on Quick's invoice; that he has been overcharged for say the silk.

What is to be done? If Quick discovers the error, he will do the obvious thing, viz.: write to inform O. Gee & Sons of the fact. On the other hand, O. Gee & Sons will send Quick a Credit Note (C/N) if they discover the mistake. Credit Notes, which are usually printed in red ink, are generally something like the following in form:

READING,

11th September, 19..

B. QUICK, Esq.

Credited by O. GEE & SONS, LTD.

| | | | |
|--|---|----|----|
| | £ | s. | d. |
| By Overcharge, 10th September, 19.. .. | 0 | 1 | 6 |

The same document would be sent to Quick also if he had returned some of the goods either because they were unsuitable or because they were damaged in any way on arrival. However, the Credit Note would be differently worded and would probably read either "By . . . invoiced Sept. 19. . . . and returned by you," or "By . . . returned damaged," as the case may be. Thus a Credit Note may be said to be a document sent by the seller to the buyer to make the allowance necessary

1. on goods returned damaged,
- or 2. ,, ,, ,, as unsuitable,
- or 3. when an overcharge has been made.

All mistakes are not overcharges. We may think that most of them are, but mistakes of the other kind are made too. Hence we have the Debit Note (D/N) to deal with either undercharges or omissions. For example, if Quick had been charged too little for the silk, he would receive a Debit Note something like the following, made out in black ink :

READING,

3rd September, 19..

B. QUICK, Esq.

Dr. to O. GEE & SONS, LTD.

| | | | |
|---|---|----|----|
| | £ | s. | d. |
| To undercharge on Invoice dated 2nd Sept., 19.. | 0 | 4 | 6 |

When the mistakes, if any, of either kind have been corrected either by Credit Note or Debit Note, all is ready for the "Statement," that is, the document which gives in a clear and concise way the dealings between Quick and O. Gee & Sons over a certain period, usually a month. It must be realized, however, that "month" in this case is not usually a calendar month. The reason is that statements are usually sent out at the end of the calendar months and, as the office staff has a considerable amount of work to do in preparing them, a line is drawn at say the 20th of the month. Thus Gee & Sons will deal, in Quick's September invoice, with all the transactions which have taken place between the 20th Aug. and the 19th Sept. Anything which takes place between the 20th Sept. and the end of that calendar month will appear in the October statement.

Let us suppose that between 20th Aug. and 19th Sept., the following transactions and documents have passed between Gee & Sons, and Quick :

| | | | | | £ | s. | d. |
|-------|-------------------------|----|----|----|----|----|----|
| Aug. | 22—Goods | .. | .. | .. | 19 | 10 | 6 |
| „ | 24—Goods | .. | .. | .. | 35 | 14 | 6 |
| „ | 25—Returns | .. | .. | .. | 0 | 17 | 6 |
| Sept. | 2—Goods .. | .. | .. | .. | 63 | 18 | 0 |
| „ | 3—Undercharge (D/N) | .. | .. | .. | 0 | 4 | 6 |
| „ | 10—Goods .. | .. | .. | .. | 46 | 6 | 6 |
| „ | 11—Overcharge (C/N) | .. | .. | .. | 0 | 1 | 6 |
| „ | 15—Goods .. | .. | .. | .. | 40 | 7 | 6 |
| „ | 18—Empty Cases returned | .. | .. | .. | 1 | 10 | 0 |

On the 20th Sept., Gee & Sons would commence to prepare their monthly statements in readiness for posting to their customers on Sept. 30th or Oct. 1st, and Quick would eventually receive a document drawn up on something like the following lines :

READING,

30th September, 19...

B. QUICK, Esq.

Dr. to O. GEE & SONS, LTD.

| | | | £ | s. | d. | £ | s. | d. |
|------------|-----|------------------------|----|----|----|------|----|----|
| Aug. | 22— | To Goods | 19 | 10 | 6 | | | |
| " | 24— | " Goods | 35 | 14 | 6 | | | |
| Sept. | 2— | " Goods | 63 | 18 | 0 | | | |
| " | 3— | " Undercharge (D/N) .. | 0 | 4 | 6 | | | |
| " | 10— | " Goods | 46 | 6 | 6 | | | |
| " | 15— | " Goods | 40 | 7 | 6 | | | |
| | | | | | | 206 | 1 | 6 |
| <i>Cr.</i> | | | | | | | | |
| Aug. | 25— | By Returns | 0 | 17 | 6 | | | |
| Sept. | 11— | " Allowance (C/N) .. | 0 | 1 | 6 | | | |
| " | 18— | " Empty Cases returned | 1 | 10 | 0 | | | |
| | | | | | | 2 | 9 | 0 |
| | | | | | | £203 | 12 | 6 |

On examining this document, it will be seen that totals only are given for each transaction. The invoices sent on the various dates during the month will have provided the detailed statement. Nor is any mention made of Trade Discount for that has been deducted already on each invoice. Cash Discount has, however, still to be considered. It will be remembered that Gee & Sons' invoices stated that the firm's terms were " $2\frac{1}{2}\%$ for cash within one month." "Within which one month?" we may ask. Most firms have a definite day of the month by which they expect accounts to be paid. The tenth day is a very usual one. But Quick bought goods as late as the 15th Sept., and if he is expected to pay by the 10th Oct. he has clearly not had a month's credit. We conclude then that Quick will be expected to pay £203 12s. 6d. less the $2\frac{1}{2}\%$ cash discount not by the 10th Oct., but by the 10th Nov. If he does not pay by then, he may not deduct the $2\frac{1}{2}\%$ but must pay the full amount.

Assuming that Quick pays the amount due by the 10th Nov., we may conclude by stating that, as a rule, he himself will deduct the cash discount—

generally using red ink for the purpose—and will then return the statement to Gee & Sons together with a cheque for the proper amount. Gee & Sons will receipt the statement, return it to Quick and so close the transaction so far as that particular trading month is concerned.

TEST QUESTIONS :

- (1) Distinguish carefully between :
 - (a) Cash and Trade Discounts ;
 - (b) Invoices and Statements.
- (2) Assuming that you were the person responsible in each case, what would you do under the following circumstances ?
 - (a) If a new customer desired to buy goods from you on credit.
 - (b) If you had already decided that a certain customer should only be allowed on credit goods to the value of £500, if he had already had £400 worth, and if he then asked for goods to the value of another £250.
 - (c) If you discovered that a few customers were much better in every way than the rest and you wished to encourage the former to do still more business with you.
- (3) Write (a) a letter on behalf of Messrs. Wilkins & Walker, Ltd., to the General Supplies Co., Ltd., London, asking them to quote you their prices for the following goods :
 - 40 cwts. Banka Tin.
 - 25 cwts. English Ingots.
 - 12 cwts. Lead, good soft foreign pig.
 (b) the reply of the General Supplies Co., Ltd.
- (4) On 14th March, 19.., you order from Messrs. Eyre & Dolan the following goods :
 - 12 Loud Speakers (Claravox type), at £10 10s. od. each ;
 - 1 Gross Valves, at 28s. each ;
 - 50 Wireless Receivers, at £20 each ;
 - 10 Wireless Receivers, at £18 each.
 Make out the Invoice. Terms are 20 per cent. and 5 per cent. cash in one month. Goods to be delivered by rail to your own town.
- (5) From the following particulars draw up Messrs. Mead & Jackson's Statement to you for March, 19.. :

| | | | | £ | s. | d. |
|------|--------------------------------------|----|----|----|----|----|
| | Balance owing to M. & J. | .. | .. | 18 | 10 | 6 |
| Feb. | 26—Goods bought | .. | .. | 16 | 4 | 9 |
| „ | 28—Goods bought | .. | .. | 23 | 17 | 10 |
| Mar. | 3—Goods returned | .. | .. | 2 | 17 | 2 |
| „ | 6—Goods bought | .. | .. | 34 | 16 | 6 |
| „ | 7—Undercharge | .. | .. | 0 | 10 | 6 |
| „ | 10—Cases returned | .. | .. | 2 | 10 | 0 |
| „ | 13—Credit Note for cases returned on | | | | | |
| | March 10th | .. | .. | 2 | 10 | 0 |
| „ | 16—Goods bought | .. | .. | 22 | 17 | 3 |

CHAPTER XVI

ON GROSS AND NET PROFITS

BOTH O. Gee & Sons and B. Quick carry on business with a view to earning their daily bread. Consequently both firms endeavour to make a profit—Gee & Sons and all other wholesalers from dealings with retailers like Quick ; and Quick from dealings with the general public. If a business man does not earn a profit at all or if he makes a profit too small to provide him with necessities for life, he must give up business. Profits then are of considerable importance to the business man and it will be our duty in this chapter to study them carefully.

If we buy a bicycle for £10 and sell it a week later for £10 10s. od., we consider that we have made a profit of ten shillings. Or if we buy a house for £800 and sell it again shortly afterwards for £1,000, we consider we have made a profit of £200. Similarly the business man who buys £100,000 worth of goods in the course of a year and sells the same goods for £120,000, has made a profit of £20,000. When we think of these dealings more carefully, however, we find that there is more to be said on each one of them. For example, the bicycle we bought for £10, may have a defective brake which allows us to go down hill at so great a speed that we collide with a bridge at the bottom instead of turning the corner. The damage we do to our cycle costs us say 10s. to repair, not to speak of the doctor's charge for repairing our damaged self. Can we say then that, when we sell the bicycle for £10 10s. od. in disgust, we make a profit of 10s. ? Or when the roof of the house we have bought is blown off by a storm and

costs us say £20 to repair, can we say we have made a profit of £200? Obviously if we do say so, we are not really stating the truth. The same applies to our business man who sells the goods he has bought for £20,000 more than he gave for them. He, too, has expenses to meet, though they are not quite of the same kind. He must have his warehouse for which he may have to pay rent and certainly will have to pay rates and taxes as well as for lighting. His assistants, whether they be those who clean his warehouse or those who sell his goods, will demand wages for their services. The printer he employs to produce his printed advertisements, invoices, catalogues, etc., will require payment. He will certainly not care to have his warehouses stocked with goods, possibly of a very inflammable type, without taking the precaution to insure them. And, moreover, he must make some allowance for the fact that the counters and other fittings in his warehouse are not being improved by constant use; nor is his warehouse itself improving with age. This falling away in value is termed depreciation and every firm has to make allowance for it. Many other things or expenses might be mentioned, but the above are sufficient to make the reader realize that the true profit of a business man or firm is not arrived at by merely deducting what he pays for the goods from the price he gets for them. His true profit is only arrived at after allowance has been made for all expenses of the kind just examined.

We have mentioned the case of a business man getting £20,000 more for his goods than he gave for them and we have said that he may look upon this as a profit. To distinguish it from his true profit, he terms it "Gross Profit." It may be said, therefore, that the Gross Profit of a business man or a business firm is the difference between what he or it gets from the sale of goods and what was

paid for those goods. If the Gross Profit be taken and if the expenses such as rent, rates, taxes, salaries, insurance, interest and so on be deducted, the result is the true or "Net Profit." If a man is owner of his own business—B. Quick for example—the Net Profit is entirely his: it is his reward or payment for the work he has done and the success he has achieved. If the business belongs to two or more partners, then the net profit is to be divided amongst them either equally or in accordance with the agreement they made amongst themselves when they commenced business. And, if the business is a Company, then the Net Profit is the amount which may be shared amongst the members (or shareholders) in proportion to the number of shares each one holds. It may be pointed out that it does not follow that *all* Net Profit will be shared out. The reader will learn the reason for this at a later stage in his studies.

Having noted the difference between Gross Profit and Net Profit, let us take the case of an imaginary firm and see, by examples, how we can arrive at each, given certain information. Let us suppose that O. Gee & Sons Ltd. had in their warehouse on 1st Jan., 19.. stock valued at £1,000; that they bought goods to the value of £20,000 between 1st Jan. and 31st Dec. of that year; that they sold goods for £22,000; and that, on 31st Dec., they had £2,000 stock in their warehouse. Bearing in mind our definition of Gross Profit, if we desire to know what that profit is, we must calculate as follows:

| | | £ | £ |
|-----------------------------------|--|--------|--------|
| Amount received from Sales .. | | 22,000 | |
| Stock in hand at 31st December .. | | 2,000 | |
| | | <hr/> | 24,000 |
| Stock in hand at 1st January .. | | 1,000 | |
| Goods bought | | 20,000 | |
| | | <hr/> | 21,000 |
| | | | <hr/> |
| Gross Profit | | | £3,000 |
| | | | <hr/> |

But we have seen that goods sold are often sent back on account of damage or unsuitability. Gee & Sons may return some of the things they have bought from the maker: Gee & Sons' customers may return some of the things they have bought. These "returns" must be allowed for and our working out of Gross Profit is made a little more complicated. Assuming that Gee & Sons have returned goods to the value of £100 and that their customers have returned to them goods worth £50, we arrive at Gross Profit thus:

| | | | | |
|-------------------------|--------|--|--------|--------|
| | | | £ | £ |
| Stock, 31st December .. | | | 2,000 | |
| Sales | 22,000 | | | |
| Less Returns .. | 50 | | | |
| | <hr/> | | 21,950 | |
| | | | | 23,950 |
| Stock, 1st January .. | | | 1,000 | |
| Purchases | 20,000 | | | |
| Less Returns .. | 100 | | | |
| | <hr/> | | 19,900 | |
| | | | | 20,900 |
| Gross Profit | | | | <hr/> |
| | | | | £3,050 |

It will be clear that if £50 of goods sold are returned, the total *net* sales will be £50 less, that is £21,950 instead of £22,000. In the same way purchases are lessened by £100 if goods to that value are returned.

Having obtained the Gross Profit, we deduct all expenses of the type we have previously indicated to arrive at the Net Profit, thus:

| | | | |
|------------------------------------|-------|---|--------|
| Gross Profit | | £ | £ |
| Expenses: Rent, Rates and Taxes .. | 420 | | 3,050 |
| Salaries | 920 | | |
| Insurance | 12 | | |
| Depreciation | 80 | | |
| | <hr/> | | 1,432 |
| Net Profit | | | <hr/> |
| | | | £1,618 |

Before leaving the subject of profits behind us, there is one other point to be borne in mind. Frequently we hear it said that a certain firm has made a profit of 50% or 10%. What does this expression mean? To which profit does it refer—Gross or Net? With what is profit being compared? Obviously there must be a comparison when we speak of a thing as being so much per cent: it must be so much per cent of something. Of what, then, is profit being given as a percentage?

Firstly, when we say that a firm has made a profit of so much per cent. in the course of a certain period, it is Net Profit to which we usually refer—not Gross Profit. Secondly, the thing with which we are comparing Profits will depend largely on whether we are interested in the matter because we own the business or whether it is merely because we have shares in the firm or company; because we have, in other words, helped to provide the Capital. If we own the business we are interested in the profits on “the turnover,” or the total net sales effected during a given period; if we have merely helped to provide the capital for the business, we are more interested in the percentage that profits are of that capital.

Supposing we are required to give the percentage of profits to turnover in any firm we shall require to know firstly the net profit and secondly the sales. If sales therefore amount to £3,000 and net profits amount to £300 in a given period, our percentage on turnover will be 10% obtained thus:

$$\frac{£300}{£3,000} \times 100 = 10\%$$

Of course we may not always find the problem so straightforward. We may be given Gross Profit, a string of expenses, and the amount of Sales. If so our working will be as follows:

| | | | |
|--------------|----|----|-------|
| Gross Profit | .. | .. | £550 |
| Expenses | .. | .. | 250 |
| | | | <hr/> |
| Net Profit | .. | .. | £300 |
| | | | <hr/> |

If sales totalled £3,000 as before, our percentage on turnover would again be 10%, obtained as above.

Now it may happen that the capital of the firm is £12,000. If we, with a number of others, have provided this capital we look at the matter in this way: Net Profits at £300 would be exactly one fortieth of the Capital or $2\frac{1}{2}\%$.

$$\frac{\text{Net Profit}}{\text{Capital}} = \frac{£300}{£12,000} \times 100 = 2\frac{1}{2}\%$$

To conclude we would have the student realize that businesses vary very widely in regard to profits compared with turnover and capital. It will be remembered that, early in the book, we pointed out that railways required a huge capital and profits will usually be a very low percentage of that capital. On the other hand, a firm with a very much smaller capital may shew profits as large as its capital or even larger. How does this come about? The reason will usually be that its working expenses (to be deducted from Gross Profit) are comparatively small and that its turnover is rapid: what it buys it sells quickly. A large profit may be made either by making big profits on each of a smaller number of things or by small profits on each of a big number. The shorter the length of time goods remain in the warehouses, factories, or shops, the better for the owners, provided they are making a profit on the goods, of course.

It is obvious, then, that good buying and large and quick sales are not the only things necessary

to achieve the greatest success possible, though it is just as obvious that they do go a long way towards attaining that end. But it can be seen now that these two things only affect the *Gross Profits* of a business. If the owner of the business does not keep his working expenses as low as possible, much of the Gross Profit will be swallowed up: there may even be no Net Profit if expenses are heavy. Hence the owner must see that all his employees are being used in the best way; that he is not paying salaries to three men when two of them could do the work of the three easily. He must see, too, that he is not spending too much on advertisements, general shop expenses, and the like. Only by being careful in this way can he get the best results; the best profit of the "Net" type. If his business does badly in its trading; if its sales drop off considerably; it is more than ever essential to pay close attention to these expenses.

On the other hand it should be borne in mind that spending too little on advertisement, on travellers, on making the business premises attractive and so on, may easily reduce his sales. He must avoid either the too heavy or the too little expenses; he must strike the happy medium. One of the business man's greatest problems is to arrive at that happy medium.

TEST QUESTIONS:

(1) The following figures relate to the trading of W. Brown & Co., Ltd., for the year 19...:

| | | | |
|-----------------------------|----|----|--------|
| Stock on 1st January, 19... | .. | .. | £4,540 |
| Purchases | .. | .. | £5,416 |
| Sales | .. | .. | £8,647 |
| Stock, 31st December, 19... | .. | .. | £3,509 |
| Sales returns | .. | .. | £162 |
| Purchases returns | .. | .. | £205 |
| Standing Expenses | .. | .. | £750 |

Find (a) Gross Profit; (b) Net Profit; (c) Percentage of Gross

Profit on Turnover ; (d) Percentage of Net Profit on Turnover ;
(e) Percentage of Net Profit on Capital of £3,000.

(2) What do you understand by " Turnover " ? Why does a business man like a " Quick Turnover " ?

(3) Mention three types of business in which turnover is rapid and three in which it is less rapid ordinarily. How do you account for the difference ?

(4) " Keep an eye on Standing Expenses." Is this a good motto ? Give reasons for your answer.

Part IV

The Mechanism of Exchange

CHAPTER XVII

ON STATE-MADE MEANS OF PAYMENT

WHEN we enter a retail shop and buy goods (for which we pay at once) there are several methods by which we may pay for them. If our purchase be a small one, we may pay in coin ; if it be larger we may pay in Bank Notes of 10/- or £1 ; if the amount of our bill be £5 or just over, we may use several 10/- or £1 Bank Notes or a £5 Bank Note, or even a cheque. But it may be that our purchase has not been made from a retailer in our own town. Then we may have to pay by post. Under these circumstances all the above methods might be used together with several others—the Postal Order, the Money Order, the Telegraphic Money Order, or even Stamps.

The retailer in turn has to pay either the wholesaler or the manufacturer for the goods he has bought from them. Usually the amounts will be larger than the ones we have to pay him and, moreover, though we may have to pay him at once, he may have been given credit by the wholesaler. How, then, may the retailer pay ? For any amount, a cheque is an easy method of payment. For reasons which will be obvious later—if not now—stamps, postal and money orders and telegraphic money orders are not convenient, whilst for large amounts too many smaller Notes would be needed for the retailer to select that method willingly. But Bank of England notes may be had for £5 and the retailers might use these notes. Either a Bill of Exchange or

METHODS OF PAYMENT.

| STATE-PROVIDED METHODS. | | BANK-PROVIDED METHODS. | | OTHER METHODS. | |
|---|--|------------------------------|--------|-------------------------------|-------------------|
| Stamps. Postal Orders. Money Orders. Telegraphic Money Orders. | Coinage. Cupro-Nickel. Nickel-Brass. Bronze. Limited Legal Tender. | Notes. Full Legal Tender. | Notes. | Cheques. Bill of Exchange. | Promissory Notes. |
| | | | | | |
| Not Legal Tender at all. | | | | | |

NOTE.—Bank Notes are issued only by the Bank of England which is a State-owned bank. They are, therefore, both State- and Bank provided.

a Promissory Note would also be possible. What these documents are, the reader will learn later.

In this country, then, payments may be made in any of the following ways: Postage Stamps, Coin, Bank Notes, Postal Orders, Money Orders, Telegraphic Money Orders, Bills of Exchange, and Promissory Notes.

The reader will realize that if the debtor could select *any* of these methods, much inconvenience might be given to others. None of us would care to be paid £1 7s. 6d. in halfpennies nor even £10 10s. 0d. in shillings or threepenny pieces. Consequently the law of the land steps in and puts a limit on the amount that we can compel a creditor to take of certain kinds of money. On the other hand, it lays down certain forms which a creditor must accept no matter how big be the sum offered in those particular forms. Because the law makes these regulations on the offering or tendering of the various types of money, we get the expression "legal tender."

Anything which is "legal tender," a person owing money may compel the person to whom he owes it to accept in payment of the debt. But even legal tender money is not all alike: some is "unlimited" legal tender; other forms are "limited." If we owe someone a sum of 52s. 6d. we cannot compel him to accept more than 40s., of it in nickel. Similarly, we cannot compel anyone to take bronze coins to more than the value of a shilling or the twelve-sided threepenny pieces to more than 2/- in value. Because of this nickel and bronze coins are *limited* legal tender, the former up to 40s., the latter up to a shilling. Bank of England Notes, on the other hand, are *unlimited* or *full* legal tender: they can be offered and must be accepted in payment of debt no matter how large the sum may be. Other forms of money—Postal Orders and the like—are not legal tender at all: we cannot compel anyone to accept a cheque in payment for goods or services.

These various methods of payment must now be examined more closely. Some of us may note that they are provided by different bodies. Stamps Postal and Money Orders, and Bank Notes, for example, are provided by the State or Government ; cheques are provided by Banks ; still others, such as the Bill of Exchange, or the document known as a Promissory Note, we can make for ourselves.

STATE-MADE MEANS OF PAYMENT

Stamps.—Of this method of payment we need say little. It will be quite apparent that stamps are not convenient save for quite small sums.

Postal Orders are useful for paying small amounts, especially by post. They can be obtained for certain fixed sums from sixpence to twenty-one shillings, and for 40 /— and postage stamps may be added to the face of any order to make up odd amounts. The number of stamps, however, is limited to two. These orders are to be obtained at every post office doing money order business. A small commission known as “poundage” is charged by the Post Office when postal orders are sold. This poundage varies with the value of the postal order purchased and ranges from 1½d. on a 6d. postal order to 6d. on a 40 /— order.

POUNDAGE ON POSTAL ORDERS

| | |
|---|------------------|
| On Orders of 6d. and 1 /— | poundage is 1½d. |
| “ “ “ 1 /6 and every multiple of 6d. up to 5 /— | “ “ 2d. |
| On Orders of 6 /— and every multiple of 1 /— up to 21 /— | “ “ 3d. |
| On Orders of 40 /— | “ “ 6d. |

Stamps to the value of 5d. may be added to Postal Orders ranging from 6d. to 4 /6 and to the value of 11d. to Postal Orders of 5 /— and upwards.

When the receiver of the postal orders gets cash for it no charge is made.

If we examine a postal order we find that it bears the words “not negotiable,” and the reader

should take great care to realize what those words mean. They do not mean, as many suppose, that a postal order may not be transferred from one person to another as a Bank Note can. What they do mean is that if anyone finds or steals a postal order, he cannot, by handing it to another person, give that person any right at all to it. Thus, if we give a man who has stolen a five shilling postal order five silver shillings or five shillings' worth of goods in exchange for it, the real owner may always come along and claim the order even though we did not steal it and even though we have given something in exchange for it. Consequently, we must always be very careful from whom we take anything on which appear the words "not negotiable," for the effect of them is the same no matter what the document is on which they appear.

When we send postal orders by post we should always "cross" them, that is, draw two parallel lines across the face of them. If this is done, no one stealing the note from the letter can go to a post office and cash it. The only person to whom a crossed order will be paid is a banker. Of crossing we shall have more to say in dealing with cheques.

Finally, postal orders may not be kept for an indefinite period without being cashed. If they are not presented (cashed) within six months of the last day of the month in which they were issued, the post office will demand a further commission.

Money Orders are of two kinds: those for use at home, or "Inland" Money Orders; and those for use abroad or "Foreign" Money Orders. What we have to say here is of Inland Money Orders only.

A money order differs from a postal order in several ways. In the first place, if we require a postal order, all we have to do is to walk into a post office, put down the proper amount, and ask for an order for the amount we wish. But getting a money order is a little more laborious. We must

fill in an application form stating the exact amount required. Secondly, we do not tell the postal clerk to whom we are sending a postal order, but we must state on our application for a money order the name of the person to whom it is to be paid. Thirdly, we never dream of telling the clerk who we are or where we live when we ask for a postal order; but we must give our name and address on the form of application for a money order. Again, single postal orders can only be obtained for amounts up to 40 /-; but we can obtain a single money order for anything up to £50. On these orders, too, the poundage is heavier than on a postal order. On the other hand, they may, like postal orders, be crossed and they are marked "not negotiable."

When a money order has been sent to the person whose name has been stated on the form of application, that person must pay it in to his bank or present it at a post office—either the G.P.O. of his town or the particular office stated on the order. He will be asked from whom he has received it, and the post office clerk will then know whether the person presenting the order for payment is the proper person. He will know this because the post office which sold the money order will have sent the information to the office which is to cash it. This, then, is why we must sign our names and give our address when we buy a money order.

Poundage is charged on Money Orders as on Postal Orders, at the time of purchase. As Money Orders are obtainable for much larger sums, however, the poundage rates reach a higher figure than for Postal Orders as is shown below.

POUNDAGE ON INLAND MONEY ORDERS.

| | | | | | |
|-------------------------------------|----|----|-----|------|-------|
| Not exceeding £10 | .. | .. | .. | .. | 8d. |
| Exceeding £10 but not exceeding £20 | .. | .. | .. | 10d. | |
| „ £20 | „ | „ | £30 | .. | 1 /- |
| „ £30 | „ | „ | £40 | .. | 1 1/2 |
| „ £40 | „ | „ | £50 | .. | 1 1/4 |

Telegraphic Money Orders exist in order to provide a rapid means of sending money from one place to another. Misfortune may come our way when we are far from home. The motor-car in which we happen to be travelling may have been damaged beyond hope. Or we may find that some clever rogue has rifled our pockets unknown to us. Under such circumstances, we may be in urgent need of money from home, and, provided we can obtain sufficient money to wire our friends a request for money, the telegraphic money order will come to our aid.

For such an order, the sender will be charged poundage at the rates given for Inland Money Orders, but there will be, in addition, a charge for the telegram sent by the one post office to the other to advise the latter (i.e., the office which is to pay), and a further charge of threepence for each order sent. For the telegram of advice a fixed charge of 1/10 in the United Kingdom is made, but the sender of the order may, if he wish, add a private message to the receiver (or payee) for which he will naturally have to pay at the usual rate of 1½d. per word.

We must not forget that, in the case of a telegraphic money order, the sender of the money does not receive the order to send. How, then, does it reach the person to whom it is to be paid? The sender may order it to be delivered at the payee's home, but if no such order be given, the payee must call at the post office and satisfy the postmaster that he is the person for whom the money order is intended.

The methods of payment provided by the State, which we have discussed so far, are those which, as a rule, are associated with payments made by persons in one place to those in another. True we may settle our debts by postal orders or money orders in our own towns but such a method of settlement is unusual rather than usual. In any case, each

of these methods involves us in expense over and above the actual amount of the debt : we must pay poundage on postal and money orders, for example. If the amount we wish to pay is small, we need a more convenient method, therefore. The extent to which we all have need to make small payments in everyday life is too apparent to call for further comment. To enable us to make these small payments with the minimum of trouble to both ourselves and our creditors, the State provides us with coins.

Coins are issued by the Royal Mint on behalf of the Government and by it alone. To-day we see nothing of the gold coins—the sovereign of 20 /—and the half-sovereign of 10 /—which were in use until the 1914–18 war began. Those gold coins were legal tender to any amount and were “ standard coins.” That is to say the metal in the coins was worth as much as the coins themselves.

The coins in use to-day, on the other hand, are “ token coins ” ; they do not contain metal to their own value as coins—a shilling does not contain a shillingworth of metal. As already pointed out these token coins are limited legal tender. They consist of the nickel sixpence, shilling, florin and half-crown, the nickel-brass twelve-sided threepenny piece which is legal tender up to 2 /—, and the bronze farthing, halfpenny and penny.

Coins are convenient for making payments on the spot in one's own town and are particularly useful for the making of small payments. It is possible to send coins by post, of course, but if one does use this method of paying a debtor, it is absolutely essential to use one of the registered envelopes provided by the postal authorities and to pack the coins in such a way that they do not move about in the envelope. Such a method, however, is not greatly used, as paper money such as Bank Notes, or a postal order or a cheque, will make the payment just as cheaply and equally conveniently.

TEST QUESTIONS :

- (1) How would you make the following payments ?
 - (a) Five shillings and sixpence to a creditor in a distant town ;
 - (b) Forty-five shillings to a creditor in your own town ;
 - (c) Five pounds required urgently by a friend stranded some distance away.

Explain why you would select the methods you name.

(2) Why are some forms of money made " full legal tender " whilst others are " limited " ? Who benefits by this arrangement?

(3) Explain why (a) Postal Orders should be crossed when sent through the post, and (b) why such Orders are marked " Not negotiable."

CHAPTER XVIII

ON BANK-PROVIDED MEANS OF PAYMENT

PERHAPS we ought to consider first of all what we mean by a banker. One of two things taken up as a business will make a man, or a body of men, banker or bankers respectively. In the first place he (or they) may issue notes—" bank notes " which, though printed on paper and of little value as paper, nevertheless represent money and are received with open arms if they are good notes. If this work was taken up we should say the bank was a " Bank of Issue " because it issues notes. In England and Wales, the Bank of England alone of all the banks is allowed to issue notes. In the second place the individual or body might receive loans of people's money, agreeing, at the time of accepting it, to repay it at any time on demand or, perhaps, to repay it after a given period after notice has been given to the Bank. In such cases we say that the bank is a " Bank of Deposit " because those who lend their money to the banker are said to have " deposited " it with the bank.

From these two types of bank—Banks of Issue

and Banks of Deposit—we get two means of payment. In the former case the Bank Note is issued, in the latter case cheques. These two forms we will now examine in turn.

As has been stated, the Bank of England is the only bank in England and Wales permitted to issue notes. It is owned by the State and controlled by a Court of Directors comprising the Governor, the Deputy-Governor and sixteen Directors. All are appointed by the Crown.

Until 1945, the Bank was a private concern, not a State-owned and controlled one. In that year, the Bank of England Act was passed and ownership of the Bank passed from the Bank's stockholders to the State: the Bank was nationalised. Those who owned Bank of England stock received Government stock in exchange when the Act came into force on the 1st March, 1946. Instead of paying dividends to its shareholders as before, the Bank now had to pay half-yearly to the Government sufficient to pay the 3% interest on the Government stock issued in exchange for the Bank's stock.

Despite this change, the Bank of England is still largely regulated by the terms of an Act passed in 1844—the Bank Charter Act. By that Act, the Bank was divided into two quite distinct sections, the Issue Department and the Banking Department; the former dealing with the issue of notes, the latter doing the kind of work done by other banks. The Issue Department, however, had to do more than merely issue notes at random: it had to regulate the issue according to the Act. At that time, a Bank Note was “convertible into gold on demand.” That is to say, any person holding a Bank of England note had the right to demand gold for it if he wished. But, as most people were just as happy with a note as with gold, they did not all seek to get gold in exchange: the notes were just as useful. The Bank was aware then that all its notes would not be

handed in at one time to be exchanged for gold. The Government knew this, too, when the Bank Charter Act was passed so it did not insist on the Bank issuing notes only if it possessed enough gold to exchange every note, if necessary, for gold. It allowed the Bank to issue notes in excess of the value of the gold held by the Bank. This excess amount was termed the "Fiduciary Issue." Every note issued above the amount of the Fiduciary Issue was said to be 'backed by gold.'

To-day, the Bank of England does not have to hold gold in this way. It no longer has an obligation to exchange notes for gold on demand. Indeed, it has little gold of its own as the reader will learn later in his studies. It may be said that, to-day, 'fiduciary issue' no longer means what it did: all Bank of England notes may be said to be a 'fiduciary issue.' The notes are backed not by gold but by Government and other securities and coin other than gold coin. But, despite the changes which have occurred in some respects, the work of the Issue Department is still essentially the same, namely, to issue notes and to hold the backing for those notes.

Now let us consider the Banking Department and its work.

The Bank of England is the Government's banker. It receives money—taxes for example—paid to the Government; it makes payments out of that money on the Government's behalf as, for example, when it pays interest on Government stocks or pensions; it lends to the Government at times when Government expenditure is in excess of the amount the Bank is receiving or holds for the Government. The Bank also buys for the Royal Mint the bullion needed for the making of our coins; it issues the coins when made; and it takes back coins which are withdrawn from circulation because they are badly worn or for any other reason.

The Bank of England is also banker for other banks such as Barclays, Lloyds, Midland, National Provincial, Westminster and so on. That is to say, each of these banks has an account at the Bank of England. These accounts enable the other banks to settle their debts to one another, debts arising from the use of cheques by the customers of the various banks. They also provide those banks with a useful reserve of funds upon which they may draw in case of emergency.

Lastly, the Bank of England acts as banker to the general public just as the other banks do but this part of its work is only a small part of the whole. The work indicated earlier is of far greater importance.

It will be appreciated that the Banking Department of the Bank of England must be ready to meet requests from the Government, the other banks and its private customers to make payments on their behalf. It must, therefore, keep funds in readiness for this purpose. The funds so kept are generally known as 'The Bank Reserve.'

Now let us consider Bank Notes.

Our Bank Notes may be defined as a promise made by the Bank of England on paper—its notes—to pay on demand the sum stated on the Note. That sum may be so low as 10/- or as high as £5 to-day. Since April, 1945, all notes to the value of £10 or more have been called in by order of the Government. Before that date Bank of England notes ranged not from 10/- to £5 but from 10/- to £1,000.

Bank Notes are payable to 'Bearer.' In other words they are payable to the person in possession of them. They are, moreover, legal tender to any amount. These facts show their value as a means of paying debts. Being 'payable to bearer,' they may be handed over by one person to another without further formality. This is a great advantage. As they are legal tender to any amount, they

may always be offered to a creditor in settlement of a debt. And, as the range of their values is from 10/- to £5, they can be used to cover a wide range of debts.

Nevertheless, the Bank Note is not the most usual form of payment in some walks of life. Where payment is to be made by post, special precautions are required to ensure the safety of Bank Notes. They should be sent by registered post and, in the case of large sums, insured to the full amount of the notes sent. Hence, owing to the additional expense that registration and insurance entail, other methods of payment are more common in these circumstances. Of these methods, the cheque is a popular one in this country and to the cheque we must now give our attention.

THE CHEQUE.

A cheque is nothing more nor less than an order given to a banker, by one who has deposited money with him, to pay on demand a certain sum of money to a person named. The person who gives this order—the customer, that is—is said to “draw” a cheque and is termed “*the drawer*.” If his bank happens to be Lloyds Bank, his cheque will be “drawn on Lloyds”; that is to say, his order will be given to Lloyds, and the bank is referred to as “*the drawee*.” The person to whom the sum is to be paid by Lloyds Bank is known as “*the payee*.” In the cheque shown below, J. Wilson is the drawer; F. Walker is the payee; and the “Portsmouth and Southsea Bank, Ltd.” is the drawee.

No. 46.

10th February, 19..

THE PORTSMOUTH & SOUTHSEA BANK
LTD., PORTSMOUTH.2d.
Stamp

Pay.....*F. Walker, Esq.*.....or Order,
Fifty Pounds
 £50*J. Wilson*.....

The student will note that the order given by Wilson is a definite one : " Pay F. Walker, Esq." No conditions must be attached to the order. If Wilson had written " Pay F. Walker Esq. or order Fifty pounds if my ship arrives safely," there would be a condition and the document would not be a cheque. Or if the document read : " Pay F. Walker Esq. or order Fifty Pounds in a month's time," it would not be payable " on demand," and would be no cheque at all.

" *Order* " and " *Bearer* " Cheques.—Cheques are of two types, " Order " and " Bearer." The one given above reads " Pay F. Walker, Esq., or Order," and is therefore an Order Cheque. If we were to substitute the word " Bearer " for " Order " the cheque would become a Bearer Cheque. What difference would that make ? we may ask. Just this : that before the bank would pay the Order cheque, Walker would have to sign, on the back of the cheque, his name exactly as given on the face of the cheque. In the above case, he would sign " F. Walker," but if the cheque had been drawn " Pay Frank Walker, Esq., or Order," he would have to sign " Frank Walker," not " F. Walker." This signing on the back is termed " endorsement,"

and this must always agree with the face of the cheque, i.e., be endorsed by the person to whom the payment is to be made. "An endorsement in blank" is of the form we have just examined. But it might happen that Walker would like to use the cheque to pay his friend, George Green, a debt. If so he may write on the back "Pay George Green, Esq., or order. . . . F. Walker." This would be a "Special Endorsement," and Green would have to sign his name on the back to complete the transfer.

If the cheque were a Bearer cheque, Walker need not sign his name on the back at all and, moreover, the bank could pay the money to any person who presented it to them for payment, for such person would be "the bearer."

Crossing.—As the "open" or uncrossed cheque given above stands at present, it could be changed into cash at the bank on demand. Consequently there is a danger of a wrong person getting the money either by stealing or by finding after loss. To make this more difficult, the cheque may be "crossed" and then cash cannot be obtained for it at the bank. To cross a cheque generally, one draws two parallel lines across the face of it. The banker, on seeing these lines, simply adds the amount to that which Walker has already at the bank, and does not pay anything over the counter. If within the parallel lines, Wilson had written the name of a bank or of some special branch of that bank, then that cheque would only be dealt with by that bank or that particular branch. That is to say, it would be there and there only that Walker would get the amount named in the cheque added to his money there. When the name of a bank is written between the two lines in this way, the crossing is termed a "Special" crossing; when a bank's name is not so written it is said to be "General."

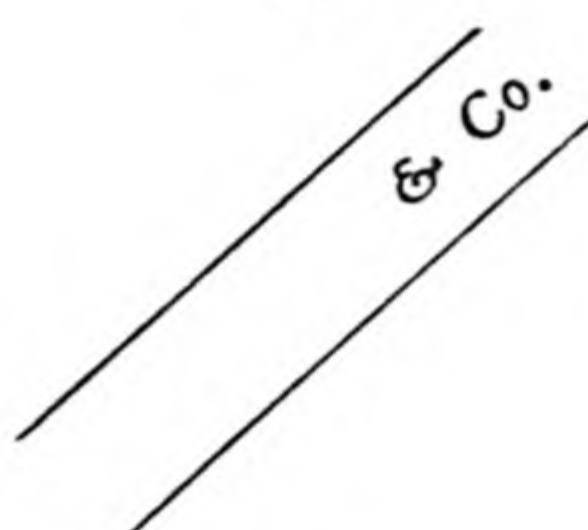
SPECIMEN CROSSINGS.

A.—GENERAL CROSSINGS.

1.



2.



3.



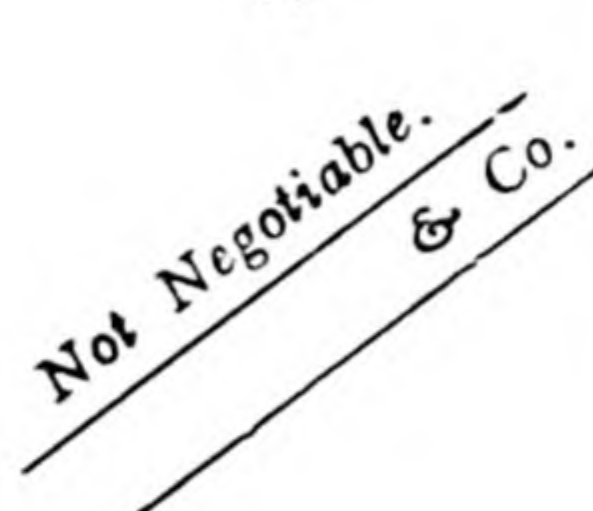
4.



5.

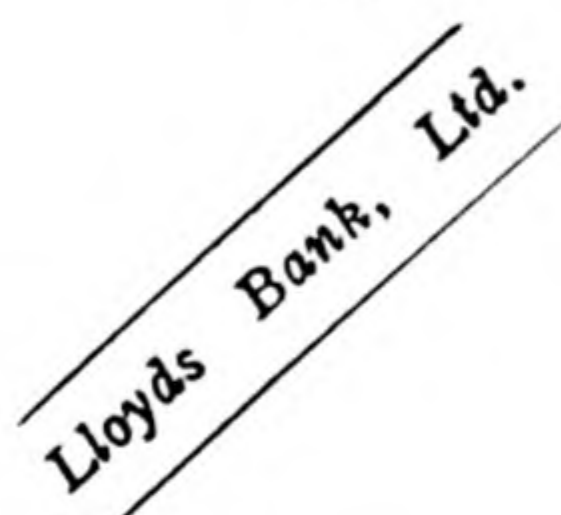


6.



B.—SPECIAL CROSSINGS.

1.



2.



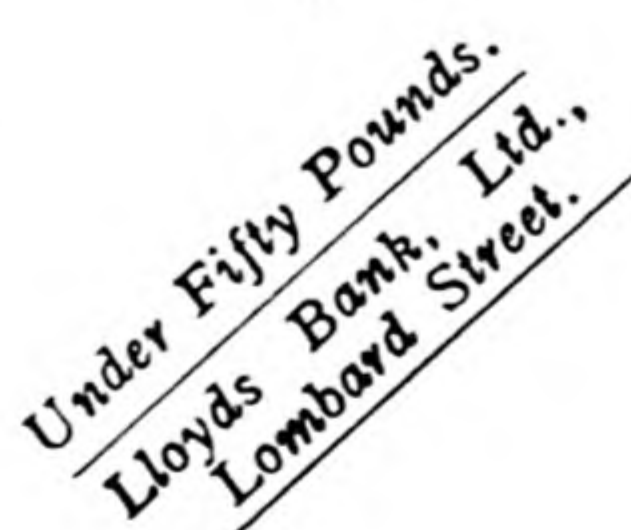
3.



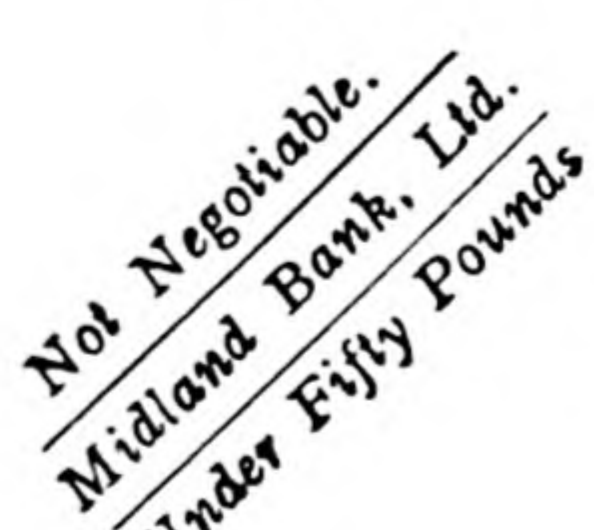
4.



5.



6.



We have pointed out that cheques are of two types, Order and Bearer. We might add now that frequently cheques are also referred to as being "Open" or "Crossed"—open if there is no crossing on them; crossed if there is a crossing of either general or special type.

In the above examination of the cheque, it has been mentioned that, if a cheque is not crossed, cash can be obtained for it at the bank, whereas, if it is crossed, the bank must simply add the amount of it to that already possessed by the man named, at that bank. This points to two methods of dealing with a cheque, viz.: (1) Cashing it, and (2) paying it in to one's account at a bank. There is, however, a third method. Suppose the person named as payee in the cheque has no account at a bank and the cheque is crossed. What is he to do? He cannot cash a crossed cheque: he could have cashed the cheque had it not been crossed by paying the bank a small sum (commission) for its service. Consequently, he must transfer or negotiate the cheque by endorsing it, to someone possessing a bank account. To transfer by endorsement is, then, a third method in which a cheque may be dealt with.

TEST QUESTIONS:

- (1) What are the advantages of the cheque?
- (2) Distinguish carefully between:
 - (a) Order and Bearer cheques;
 - (b) Open and Crossed cheques;
 - (c) General and Special crossings;
 - (d) Blank and Special endorsements.
- (3) What is the effect of adding the words "Not negotiable" to the crossing on a cheque?

CHAPTER XIX

ON OTHER MEANS OF PAYMENT

HAVING examined methods of payment provided by State and Banks respectively, we may now turn to consider two other modes:—the Bill of Exchange (B/E) and the Promissory Note (P/N)

Bill of Exchange.—Like the cheque, a Bill of Exchange is a written order to pay a definite sum of money—an order, too, which must have no conditions attached to it. But there all important resemblances are ended. We may say that a cheque is “a bill of exchange drawn on a banker,” and into that statement we may read that a cheque is only a part of a greater whole, the bill of exchange being the whole.

We will assume that Wilson is a wholesaler, and that he has sold goods to Walker and desires to give the latter two months in which to pay for them. He can do this satisfactorily by drawing a bill of exchange on Walker thus :

£250.

3/-
Stamp.

LONDON,

2nd October, 19....

Two months after date pay to my order Two hundred and fifty pounds, value received.

To F. WALKER, Esq.

J. WILSON.

Once again, as in the cheque, Wilson is the *drawer*; it is he who has drawn or made out the document. But no bank is mentioned. Instead we find Wilson ordering Walker to pay him £250. Walker then is the drawee in this case. The £250 is to be paid to Wilson himself and so Wilson is the payee as well as the drawer. Thus we have the same parties to a bill of exchange as to a cheque, viz.:—drawer, drawee, payee. But the drawee in the bill need not be a bank.

However, as the bill stands at present, it is not of much value. If it were, then each of us could draw bills on all our friends for thousands of pounds, and get rich quickly. It is evident that Wilson must get Walker to show that he (Walker) does owe £250. This Wilson does by sending the bill to Walker to be “accepted” by him. If Walker admits that £250 is the right amount, and, if he is willing to pay in two months’ time, he writes across the bill “Accepted payable 3rd October, 19... F. Walker,” or some such words. Then the bill is said to have been “accepted”; it is now known as “an acceptance,” and Walker is known as “the acceptor.” The bill now appears as under:—

| | |
|--|--|
| £250. | LONDON, 2nd October, 19... |
| <div style="border: 1px solid black; width: 100px; height: 100px; margin: 0 auto; display: flex; align-items: center; justify-content: center;"> 3/- Stamp. </div> | <div style="transform: rotate(-45deg); transform-origin: center;"> Accepted Payable Lloyds Bank, Ltd. 19... F. Walker. </div> |
| Two months after date pay to my order Two hundred and fifty pounds, value received. | |
| To F. WALKER, ESQ. | (Signed) J. WILSON. |

Having got Walker's acceptance, Wilson may now do one of three things with it:—

- (a) Keep it until the two months have expired, and then present it to Walker to get the £250;
- or (b) sell it to a bank or to some other body or person;
- or (c) hand it over to someone to whom he owes £250.

If Wilson keeps it himself he presents it to Walker not on Dec. 2nd, but on Dec. 5th—that is, in two months and three days. These three days are known as “Days of Grace,” and must be added on to all bills which run for a period as in our example. Had our bill been worded “On demand” or “At sight” instead of “Two months after date, etc.,” these days of grace would not be added on: the bill would be payable as soon as it was presented. The date on which payment of a bill is due is termed the “due date”; December 5th is the due date in the case we have given.

If Wilson sells the bill to the bank as soon as he gets it back from Walker accepted, on Oct. 4th, how much will he get for it? We must remember that it is only in two months' time that £250 can be got for it from Walker. We cannot expect the bank or any other buyer therefore to pay £250 for it on October 4th. A certain sum will be deducted, say, by the bank, which is said to “discount the bill.” This sum is deducted at a certain rate per cent.—not the same for all bills—and is known as “the rate of discount.” What that rate is will depend on the bill itself and on the names which appear on it. Thus, if Walker is an entirely unknown man or if his reputation for paying his debts is not good, the rate of discount will be high; or, maybe, no one will buy the bill at any price. On the other hand, if Walker is known the country over as an

honourable and prosperous man, the rate of discount will be lower. Other matters concerning this question of discount cannot be discussed in this book. But we may add that if the bill is discounted by a bank, it will be the bank's duty to present it to Walker on December 5th to get the £250 due on that date.

Now we come to Wilson's second alternative—handing it over to someone to whom he himself owes £250. This he may do by endorsing the bill, i.e., signing his name on the back, or by writing on the back "Pay F. Watson or Order. J. Wilson." The former is a "blank endorsement," the latter a "special endorsement." Possibly the bill may pass through many hands before December 5th by being endorsed in these ways, but the last act is always the same; the bill must be presented to Walker, the acceptor, on the due date for payment. If Walker pays the £250 the bill is "honoured"; if he cannot pay or if he refuses to do so, the bill is "dishonoured by non-payment." Had Walker refused to accept the bill in October, it would have been "dishonoured by non-acceptance."

Let us now consider the reason for the importance of the bill of exchange.

Firstly we may see in the bill a means of giving a person credit for a period without having to wait that length of time for the money. Thus Wilson gives Walker two months' credit but, if he so wishes, he can usually get cash for his bill at any time. This may enable him to pay his debts to others earlier than he would have been able to do otherwise, and may even enable him to obtain better discount on the accounts he owes. Or he may need the money he gets by discounting his bill of exchange for working expenses, or to meet an unexpected demand on him for cash. Again, by endorsing the bill of exchange and handing it over to one of his own creditors, Wilson may pay a debt

The value of these features to a business man is obvious.

In the second place, when Walker has accepted the bill of exchange, Wilson has in his possession a legal document on which he can sue Walker in the Courts if the latter does not pay at the due date.

Now let us look at the bill of exchange from the other point of view—that is to say, from Walker's instead of from Wilson's.

Walker, as we have seen, gets two months' credit. In that period he has time to sell some, if not all, the goods he has bought from Wilson. In other words, the bill of exchange, in this case, gives him time to raise the money to pay it, by selling the goods. Secondly, Walker knows that his debt is to be paid on a definite date: there can be no question of Wilson making a sudden and unexpected demand on him for the money.

In what way does a bill differ from a cheque? If the facts which have been stated are considered, the following differences will be observed:

- (1) A cheque is not "accepted" in the sense in which that word is used in connection with a bill of exchange;
- (2) All cheques are drawn on a bank and are payable *on demand*—not after the expiration of a longer or a shorter period as bills often are;
- (3) A cheque may be crossed; a bill of exchange cannot be crossed.
- (4) All cheques, no matter what the amount named may be, bear a 2d. stamp, but a bill of exchange usually bears what is known as an *ad valorem* stamp, that is to say, a stamp which varies in amount with the sum named in the bill. Only bills which are payable on demand or at not more than three days after the date of the bill or after sight bear a 2d. stamp for all amounts. All other bills

bear stamps which vary from 2d. for a bill in which the sum named is not more than £10 to 1s. for a bill of £100 and more still for bills of greater value.

STAMP DUTY ON INLAND BILLS OF EXCHANGE.

(a) For all B/E payable on demand, at sight, or within three days of date 2d.

(b) On all other Bills the stamp must be as follows :—

| | | |
|---|---------|-----|
| If the B/E does not exceed £10 | | 2d. |
| " " " exceeds £10 but does not exceed £25 | | 3d. |
| " " " " £25 " " £50 | | 6d. |
| " " " " £50 " " £75 | | 9d. |
| " " " " £75 " " £100 | | 1/- |
| " " " " £100, an additional 1/- for each £100 or each fraction of £100. | | |

In conclusion, we would add that what has been said above applies only to bills drawn by one person in the British Isles on another person also in the British Isles. Such bills are termed Inland Bills. Of Foreign Bills the reader will learn later in his studies.

Promissory Note (P/N).—A bill of exchange is an unconditional order ; a promissory note is an unconditional promise. It is in short, a written promise to pay a certain person a certain sum on demand or at a certain time. It is signed by the person making the promise and usually takes the following form :

| | |
|---|--|
| <div style="border: 1px solid black; width: 100px; height: 100px; margin: 0 auto; display: flex; align-items: center; justify-content: center;"> 1 /- Stamp. </div> | <div style="text-align: right; margin-bottom: 10px;"> BIRMINGHAM, 4th August, 19--. </div> <p>£100.</p> <p>One month after date I promise to pay John Wilson, or Order, the sum of One hundred pounds, value received. Payable at Lloyds Bank, Banbury.</p> <p style="text-align: right; margin-top: 20px;">FRANK WALKER.</p> |
|---|--|

Walker, having drawn the note, is known as "the maker" (not "the drawer," let it be noted). He hands the note to Wilson to whom he owes the £100, and Wilson will present it for payment at the bank named after the month and the days of grace have elapsed. But Walker does not "accept" the note as he did the bill: it is not necessary for him to do so for has he not signed his name in his own handwriting? Sometimes more than one person signs a promissory note even though the note reads "I promise to pay." In such cases the sum named can be claimed from both together or, if not in that way, from either of them separately. For this reason such a note is termed a "joint and several" note. Some promissory notes run: "We jointly and severally promise to pay, etc.," and to these notes the same thing applies: if the money cannot be obtained from the two or more makers jointly, it can be claimed from each one individually. At other times the note may run: "We jointly promise to pay, etc.," and then payment can only be claimed from the makers jointly and not either jointly or individually (severally). This last type of promissory note is a "joint" one.

Like bills of exchange, promissory notes bear an *ad valorem* stamp and, in general, rules which apply to bills apply to promissory notes.

It may be pointed out that a Bank of England note is a promissory note, but it bears no stamp—exemption from stamp duty being one of the Bank of England's privileges. But, promissory notes, unlike Bank Notes, are not legal tender and may be made payable to Order or to Bearer.

In conclusion of our examination of the bill of exchange and the promissory note, let us tabulate some of the main differences between them.

DIFFERENCES BETWEEN B/E AND P/N.

| <i>B/E.</i> | <i>P/N.</i> |
|---|---|
| (1) B/E has three parties originally: drawer, drawee, payee. | (1) P/N has only two parties: maker and payee. |
| (2) Drawer of Bill is not the principal debtor even if he is the debtor at all. | (2) Maker of Note actually owes the money. |
| (3) B/E is an order to pay. | (3) P/N is a promise to pay. |
| (4) B/E is accepted. | (4) P/N is never accepted. |
| (5) Acceptors of a B/E are liable <i>jointly</i> . | (5) Makers of a Note may be liable jointly or jointly and severally according to the kind of P/N it is. |

TEST QUESTIONS:

(1) Under what circumstances would you not expect the payee of a Bill of Exchange to hold it till the due date?

(2) What are the advantages of a Bill of Exchange to a creditor?

(3) Wilson & Walker, Ltd., owe Johnson Bros. £350, whilst Johnson Bros. owe the Road Transport Co. a like amount. Draw up the Bill of Exchange to meet the situation; indicate the value of the stamp required; and accept the Bill in the necessary fashion.

(4) Distinguish between a "Joint Promissory Note" and a "Joint and Several" one.

CHAPTER XX

ON BANKS AND BANKING ACCOUNTS

IN the course of reading this book the student will have noted that the bank has been mentioned in many places. He will have noted this particularly in connection with cheques and bills of exchange. But the banks of this country do far more than has been indicated thus far, and in this final chapter we propose to deal with a bank and its work, particularly its work for the business man.

Banks as we have seen, may be either Banks of Issue or Banks of Deposit. In England the Bank of England is the one Bank of Issue and, as we have already dealt with that bank, we shall give our attention now to the Midland Bank, Barclays, Lloyds, and the rest—all of which we see in all our towns of note. What, then, is the work done by such institutions ?

It may be said that the functions of a bank such as any of those we see in our daily walks are as follows :

- (1) To receive money on deposit ;
- (2) To honour (or pay) cheques drawn by customers as long as such customers have sufficient money at the bank to enable the bank to do so ;
- (3) To collect cheques, i.e., to obtain payment for cheques which have been sent to the bank's customers, probably from people in towns far away ;

- (4) To lend money to customers who can be relied upon to repay such loans ;
- (5) To discount bills of exchange and promissory notes ;
- (6) To take charge of valuable goods, documents, etc., for customers ;
- (7) To buy or to sell the money of foreign countries for customers.

Many others might be added but the above are enough to give an idea of the varied work which banks perform ; of the varied services they render to their customers. Let us now look at some of these functions a little more closely.

If we are happily in possession of a sum large enough to entrust to a banker, we open an account, provided we can satisfy the banker that we are suitable persons to be allowed to do so—not a lunatic, for example. We are requested to sign our names in a book kept specially by the bank for such purpose, and that signature is the banker's guide in the future. Consequently we must sign our name as we intend to sign it on all our cheques. A cheque book is handed to us, and for this we have to pay as many twopences as there are cheques in the book we get ; we pay for the stamps on the cheques, in other words. We may also be given a book of " Paying-in slips "—a book of slips on which we are to write down the amounts we pay into the bank at different times and in what way we pay them in ; whether in coin, in Bank Notes, or by cheque. The following is a typical paying-in slip :

We tear off a slip, fill in the necessary particulars, sign our name in the space provided (Paid in by) and hand it in with the amount whenever we wish to pay anything in. On the counterfoil, we have the details for our own use.

Our account may be either a current account or a deposit account. If it is a current account we shall be able to draw cheques as and when we wish, as long as we have enough money at the bank to pay them. But we shall get no interest on our money as a rule. On the other hand if we open a deposit account we shall be paid interest, but we shall not usually be allowed to withdraw money without giving the banker notice that we intend to do so. If the account is a current account, the banker will enter all sums paid in to the bank by us and all sums withdrawn on a loose leaf account sheet or, in some cases, in a "Pass Book." By referring to the sheet or Pass Book, one is able to see just how one stands ; to learn how much is standing to one's credit at the bank. If the stage is reached when more has been paid away by cheque than was standing to one's credit, the account is said to be 'overdrawn.' If we open a Deposit Account we may get a slip known as a Deposit Receipt, which is in reality a receipt for the money paid into the bank together with particulars regarding the notice to be given before any withdrawal, etc. Each time we desire to withdraw money this Deposit Receipt must be taken to the bank so that the amount withdrawn and the amount remaining on deposit may be entered up. Some banks issue a Deposit Account Book instead of the Receipt. This book merely performs the same functions.

Of what value is all this to anyone, to the business man, for example ? First of all, it is obviously an advantage to be able to leave large sums in a bank which has "strong rooms" rather than in our homes or in an office where the dangers of loss are

so much greater—not to speak of the fact that we may get interest on the money if we put it “on deposit account.” Secondly, by a few strokes of a generous pen it is possible to pay at a cost of two-pence (plus subsequent postage) all the money we have at the bank to a person at the other end of the country. In short, the cheque is the cheapest method of making payments of large sums to people in other towns. Thirdly, the banker will take the cheque we receive in Exeter from a person whose money is in a Liverpool bank and collect that money for us, or he will take the bills of exchange we hold accepted and present them for us at the proper time in the proper quarter. To these we must add that the banker is always a willing helper, when any firm or any person desires a reference. When Mr. Smith proposes to rent a furnished house, the house agents wish to know if he can be relied upon to pay the rent. Mr. Smith’s banker is always prepared to satisfy their curiosity. Or if Mr. Smith, the retailer, wishes to convince Mr. Brown, the wholesaler, that he is a fit and proper person to be granted credit, he may give his banker as a reference.

Even here, however, the bank’s usefulness is not ended. Mr. Smith may have bills to pay and have no money with which to pay them, perhaps because he has just bought for cash down a big stock of bargains. His bank knows that he is a reliable man and so he can get a loan. The manufacturer, the wholesaler, the private individual—all can get loans if they are reliable and if they will give the banker some security; something which will cover the amount he is lending. The bank really makes the business man a loan when it buys from him (discounts) a bill of exchange which does not fall due for payment maybe for two months or even longer. It helps him to conduct his business with foreigners because it will exchange our money for theirs, or

theirs for ours, just as the business man may desire. And, lastly, by means of the Account Sheets or Pass Book, it provides the customer, whether he be business man or otherwise, with a useful record of receipts and expenditure.

TEST QUESTIONS :

- (1) What steps are necessary to open a banking account ?
- (2) In what ways is a Current Account different from a Deposit Account ? Which do you consider more useful to a business man, and why ?
- (3) Which part of a banker's work do you consider most useful to the business man ? Give your reasons.



ALLAMA IQBAL LIBRARY



10038

